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CHARTERED BANKING

IN

RHODE ISLAND, 1791-1900

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STOKES

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IN

RHODE ISLAND

1791-1900

BY

HOWARD KEMBLE STOKES, PH.D.

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GENERAL

By the Same Author

Public Finances of Rhode Island

In Press

The Finances and Administration of Providence, 1636–1900

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PREFACE.

The words "Chartered Banking" have been selected as a part of the title of this monograph for two reasons:—first, because the state itself engaged in non-chartered banking during the years 1710-1786, when it issued a credit currency and made loans on notes with mortgage security as collateral. I have described these phases of banking in Rhode Island in connection with the history of the public finances of the state in another monograph. Second, because I have discussed in this monograph banks chartered under the national banking law as well as those chartered under state law, and have also presented some reasons for the supplanting of the state banking system by the national banking system, and the partial supplanting of the latter by the more modern state trust company system.

THE AUTHOR.

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GREENVILLE TAVERN, SMITHFIELD.

The Greenville Bank was formerly located in this building.
Built by Resolved Waterman in 1730.

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CHARTERED BANKING IN RHODE ISLAND.

[Chartered banks in Rhode Island have had a peculiarly close association with the industry of the state. Their history cannot be understood apart from their appropriate setting in the local economic development. This chapter will therefore be divided into four sections beginning respectively with the years 1791, 1809, 1840 and 1865. The first period was characterized by banking free from state supervision and by industry confined to commerce and agriculture. The second was a period of banking restricted by state supervision and industry almost wholly devoted to manufacturing. The third period was marked by some degree of inflation incident to gold discoveries and the civil war and consequent further restrictions in banking and by industry reorganized by the use of steam power and carried on by incorporated companies instead of co-partnerships. The fourth period has been marked by the importance of deposits and trust companies in banking and a reorganization of industries due to better methods of credit and improved mechanical devices.]

First Period.—1791–1809.

Rhode Island was not among the first states to undertake the role of a banker, but it drank deeper and longer than they of the cup of inflation, repudiation and dishonor. At the close of the Revolution, it was said that "punctuality in business engagements was observed nowhere outside of Philadelphia",[1] and Rhode Island customs and traditions had been such that the statement was particularly applicable to it. The economic condition of the people did not warrant the hope of success in a private banking enterprise. The state was impoverished by the war, the soil had been exhausted by the demands made upon it and many of the inhabitants were emigrating to the more fertile lands of the west. Trade was dull, the limited territory which was tributary to the towns offered by no means a hopeful prospect to those who remained. The two factors of encouragement were world-

[1]Gallatin's Works, iii, 370.

wide commerce of the merchants (the fitting of the first ship for the East India trade occurred in 1787), and the beginnings of the cotton industry in 1790. At this time there were only four banks in the states—one each in Boston, New York, Philadelphia and Baltimore. Providence was far behind any one of these cities in wealth or population or prospects.

The first attempt to start a bank in the state was made in March, 1784. The project had been discussed in the public press and the advantages of such an institution had been ingeniously advertised by the promotors. The Bank of America in Philadelphia was cited as an illustration of the opportunities for investment which banking offered. The stock of that bank was in great demand and a semi-annual dividend of eight per cent. had been paid on it in January. The proposed bank was to be called the Bank of Rhode Island and Providence Plantations. Its capital was fixed at $150,000, and the par value of the shares was $300. Ex-Deputy Governor Jabez Bowen, John Jenckes and John Brown were to receive subscriptions, but despite the commanding influence of such men, the plans failed. Only $30,000 was subscribed at a meeting held at the state house. The meeting adjourned to assemble in a few days at "Mr. Rice's tavern". Of that assemblage there is no record, save that many of those who had not subscribed before, and among them Moses Brown, were invited to attend. Economic conditions were not ripe for the enterprise. There was very little capital available for it, and it probably did not comport with the business acumen of the Brown brothers to attempt to build a bank on stock notes, as subsequently became common. The plan for a bank lay dormant for seven years.

In June, 1791, it was revived, this time apparently by the firm of Brown & Francis, of which John Brown was a partner. Brown was in Philadelphia at the time and he had been urged to get a branch of the United States bank, then forming, established in Providence, but he found such a scheme impracticable. He advised his brother that the establishment of a local bank would be the most effective method of inducing the United States bank officials to think the town entitled to a branch. He believed the time a fitting one for the enterprise, although the town was small and the field limited, "but", he wrote, "by our exertions, and favoring a good and substantial foundation for the commercial, manufacturing and mechanical rising generation, it may in time become no inconsiderable capital, but without a spring to promote our young men in business here they must and will continue to go to such places as will aid them with the means of business; and in short all our wealth, I mean the wealth as fast as acquired, in this state must be transferred to other states, who by their banks promote all the valuable arts of mankind".[1] This paragraph was typical of the lives

[1]Moses Brown Papers, August, Sept. and Oct., 1791.

of John and Moses Brown. Their zeal for all kinds of local improvements seemed almost untiring. For nearly four months they were maturing the details of their plan and comparing it with the charters and regulations of the then existing banks of this country and those of the Bank of England. They favored a small bank and limited capital of only $100,000, but finally decided to increase the latter in order to enlist subscribers from outside the state; while to encourage those of limited means a disproportionately large vote was proposed for the small stockholder and the voting power of any individual or corporation was limited. It was also thought advisable to pattern as nearly as possible after the United States Bank. As a further inducement to subscribers, it was stated that "the institution is pleasing to the secretary of the treasury of the United States and that, therefore, every reasonable encouragement from him may be expected".[1] The stock was limited to $250,000—625 shares of $400 each. Of this sum $50,000 was for a time reserved for the United States and $20,000 for the state. Neither, however, subscribed. Other investors were ready. Thirteen hundred and twenty-four shares, or nearly three times the stock allotted to private parties, were at once subscribed. Capitalists and corporations from the state and the neighboring states and from Boston and New York sent in their offers. Only $180,000 of stock was allowed, and the subscriptions of non-residents were reduced the most. The charter of the Providence Bank was granted by the general assembly October 3, 1791.

As this charter was the model of bank charters for many years, it deserves careful consideration. The preamble contains the following: "Taught by the experience of Europe and America that well regulated banks are highly useful to society, by promoting punctuality in the performance of contracts, increasing the medium of trade, facilitating the payment of taxes, preventing the exportation of specie, furnishing for it a safe deposit, and by discount rendering easy and expeditious the anticipation of funds on lawful interest, advancing at the same time the interest of the proprietors", etc. The incorporators were empowered "to have, purchase, receive, possess, enjoy and retain, lands, rents, tenements, hereditaments, goods, chattels and effects of what kind or nature soever; and to sell and dispose of the same, to sue and be sued, plea and implead."

Practically no limitations were put upon its corporate powers, except that within the corporation itself the directors were to do nothing contrary to the regulations of the stockholders.

No specific clause conferred the right to issue bank notes, although it was implied in the clauses providing for an official examination of the notes issued and redeemed and in the clause providing a penalty for counterfeiting notes. The issue of bank notes seems to have been

[1]Providence Gazette, Oct., 1791.

considered, here as elsewhere, a common law right. The stock was to be paid for in installments covering a period of nine months—two-fifths in silver or gold and three-fifths in funded stock of the United States. The voting power of the stockholders did not correspond to the number of shares held. The holder of one or two shares had one vote, two additional shares were required for every additional vote for holdings between two and ten shares; four additional shares for holdings between ten and thirty; six additional shares for holdings between thirty and sixty; eight additional shares for holdings between sixty and one hundred, and ten additional shares for holdings above one hundred shares. Thus the holder of 100 shares had only twenty votes; the holder of 200 shares had thirty votes, which was the maximum number allowed to any one.

The directors had entire charge of the business of the bank "for the interest and benefit of the proprietors", and they were to declare dividends at least once in six months. They were to receive no "pecuniary advantage" for their services unless the profits exceeded six per cent. net.

The bank was required to receive all sums of money for safe keeping, and to pay them out on order of the owner without charge. The liability of the stockholder was limited to the amount of the stock held.

The so-called "bank process" was granted to the bank. Under it when an obligation to the bank fell due, the president or three directors gave legal notice to the debtor, and on making oath before the clerk of the court, the latter was required to enter judgment against the defendant and issue execution without the usual intervening legal process of trial; but—and the modifications are important—the debtor was allowed ten days' grace before execution issued, and if upon receipt of legal notice he denied the legality of the debt or any part of it, he was accorded all the privileges of regular trial. The full force of this provision appears when taken in connection with the rule of the Providence Bank that discounts should be offered for thirty days only.

The bank process was peculiar to Rhode Island. It gave to the banks a speedy remedy against debtors not granted to other creditors. It did not provide an equally summary remedy against the bank in case it should default.[1]

[1]The provisions of the bank process must not be confused with the provisions of the present bankruptcy act, under which all legal procedure looking toward judgment obtained by one creditor is voided. The provisions for insolvency were those of the common law. The act of insolvency then in force was that of 1756. Assignment did not void previous legal procedure begun by an individual creditor. Hence the bank process did not confer upon the banks any extraordinary exclusive powers as compared with other creditors. It simply accelerated legal procedure and avoided delay in case of an acknowledged debt.

PROVIDENCE INSTITUTION FOR SAVINGS.

In the second bank charter granted by the general assembly, that of the Bank of Rhode Island of Newport in 1795, "the process" contained no clause providing ten days of grace before judgment was granted. This more summary power was conferred on all subsequently chartered banks until 1818, and in 1807 the charter of the Providence Bank was amended to the same effect.

This law has been the subject of much criticism. It has, however, an historical setting and some economic relations, without an understanding of which it has seemed strange to some and exceedingly unjust to others. Its setting and relations were as follows: The spirit which prompted the founding of the Providence Bank was voiced in the letter of John Brown to his brother, Moses, already quoted. It was not an institution for private aggrandizement, although the interests of "the proprietors" was always guarded—and properly so; its stock was not monopolized by a few, but was distributed in small lots among all the members of the community. Twenty years after it was founded its stockholders exceeded 140 in number. The largest individual stockholder, Thomas L. Halsey, had only 69 shares. Nicholas Brown and Thomas P. Ives held 65 shares each. Welcome Arnold, 58 shares, and besides these there were no large individual holdings. A very great number held from one to five shares, and the list contained the names of "ten charitable societies and fifty-one widows, orphans and fatherless children". At practically the same time that this condition prevailed in the Providence Bank other banks were organized with $200,000 of capital, owned by only four stockholders and represented largely by speculative promises to pay in the form of stock notes. Thus from the point of view of the investor the incorporators of the Providence Bank were to a predominant degree the trustees of the interests of the community. But their trusteeship had a much broader scope than this—a scope arising from the then prevalent notions of the functions of banking.

In the face of their bitter experience the leading men in Rhode Island had not entirely escaped from the "currency" heresies of the period. Even so acute a mind as Hamilton's stumbled on this point. The preamble of the bank announced one of the objects to be the increase of "the medium of trade". It was implicitly believed that in every community there is a demand for a certain amount of representative money medium, which will pass from hand to hand at par with coin, and will not be presented for redemption if the credit of the issuers is good. Said a writer in the Providence Gazette in 1784, "Nothing is necessary to make this representative of money supply the place of specie but the credit of that office or company who delivers it; which credit consists in its always being ready to turn it into specie whenever required". "It is not necessary that the bank should

always have a fund sufficient to discharge all its notes at one time, it being enough if it is capable of answering any demand and paying all notes as soon as presented". The writer calculated that notes equal in amount to twice the capital might safely be issued, "though this depends much upon the nature of the business the notes are to be employed in".[1] This was a clear statement of the prevailing thought. It was the currency principle in contrast with the banking principle. It maintained that in connection with the demand of the community for representative money, a certain amount of paper may be issued by a banking corporation, that the amount is not limited by the quick assets of the bank in the form of specie, nor even by its contingent assets in the form of capital; but that somehow and somewhere in the corporate personalty of a bank is an intangible something called credit, upon which a currency medium may safely be based. When a few years later the excessive issues of paper notes by the banks in one or two instances destroyed their convertibility, the legislators sought the remedy, not in a reduction of the amount of notes issued nor in an increase of the specie reserve of the banks, but in an increase of the intangible credit basis of the notes represented by increased liability of both directors and other stockholders. Later note issues were limited to a certain proportion of the paid-up capital, but no laws of the state ever fixed the amount of the bills issuable by the amount of quick assets or specie on hand. Something of the same thought had been expressed in the general public condemnation of those who had at earlier times presented bills of credit to their issuers for redemption in specie. We now know that these ideas arose partly from custom and tradition and partly from a real scarcity of money media, but their fundamental fault lay in mistaking a want of capital for a want of money media. What they needed most was circulating capital. They thought they wanted a means of making goods circulate more readily, that thus consumer and producer would be brought closer together; that trade and commerce would be stimulated and, if prices rose somewhat, such a rise would indicate simply a normally increased demand for both products and labor—which demand had not before been normal because of the absence of money media. They did not know that, aided by the forces of nature, capital or wealth can only increase by the action of mind and muscle upon matter. The effective demand for goods comes from a supply of other goods and cannot be created by such money media as are mere counters in a game that in its last analysis is simple barter. Plentifulness of money media was believed to be equivalent to increased activity of it, and to a greater ease in getting it. The same thought has constantly reappeared in our monetary history from that day to this. Their idea, therefore, that

[1]Gazette, 2-20, 1784.

there is a demand in the community for representative money media beyond the ability of existing capital to supply, when aided by discount banking, was erroneous, as was also the notion that such a necessary excess of money media could be supplied by an intangible and then little understood factor called credit.

But if there was a fundamental error in their thinking there was also a fundamental truth in it. There is a demand for a representative money media in every community, but it can be adequately supplied by the processes of discount banking and by the conversion of wealth into the money forms of capital. The difference between a circulating medium based on the banking principle, and a circulating medium based on the currency principle, lies not simply in the fact that the one is based on existing capital, while the other is based on intangible credit, but in the fact that the circulation of the former currency is constantly ebbing and flowing and may at times be all redeemed and entirely disappear, while the latter is a permanently circulating fund, which is not expected to be redeemed.

The Providence Bank then, in 1791, was to supply a circulating medium to a community believing in the currency principle. Some of the circulation was to be convertible and was to be converted from time to time. Some of it was to be convertible but was not to be converted. The determination of the amount that would not be redeemed was the unknown factor in the problem, and it was the dangerous factor. If the promotors of the bank were to furnish a medium that would always be maintained at par with coin, such factors must be eliminated as far as possible. If the bank was to act as trustee for the interests of the community in furnishing it a medium as good as real money, it was not too much to ask that the community itself should stand sponsor for the integrity of its individual members. The quick assets of the bank would not suffice to redeem all of the issues at one time. The contingent assets must be brought as near as possible to the condition of quick assets. The bank process, by avoiding legal delay on an acknowledged debt, converted all overdue paper into a quick asset, and the principle of a thirty day discount eliminated the delays incident to realizing on long time or accommodation paper. The public demanded that the bank notes should be redeemable in cash on demand, the bank in return asked that the public pay cash on demand to it on its matured notes. Strict punctuality on part of the one could only be maintained by strict punctuality on part of the other. The "bank process" enabled the bank to enforce that punctuality upon others which others demanded of it.

It was therefore a device to insure the convertibility of the large issues which the community demanded. It stamps the originators of it and the founders of the Providence Bank as men capable of adapt-

ing their institution to its peculiar environment. It marks them as resourceful and as remarkable in banking management as they seem to have been in their other enterprises. They discovered that any system of credit is absolutely impossible without the efficient co-operation of a sovereign government. The bank process provided for this co-operation. It was a new device in the then state of finance and it was effectual.

They did not overlook other means toward the same end. The payment of three-fifths of the value of the stock in United States bonds, and the retention of the bonds for many years in the vaults, were also a part of a plan to maintain a reserve in a form that had both earning power and convertibility. In 1800 when, owing to political or other causes, an unusual demand was made on the specie reserve, John Brown, then a member of congress, sent a draft on the United States Treasury for $13,699 in coin to the bank. He ordered $10,000 of the United States bonds to be sold and $20,000 of specie loans to be called in.[1]

It has been assumed that the bank process was unnecessary, but it is the part of wisdom to forefend necessity by providing for it, and it is not improbable that the lack of apparent necessity for the exercise of the process at first was caused by the fact of its existence. It has also been claimed that it was unjust. But conditions were peculiar. The debtor classes had been taught by eighty years of paper money issues that an evasion of debts was to be made easy; that scaling them was the natural order of things. Within two years the state legislature itself had repudiated fourteen-fifteenths of all its obligations by redeeming them at a rate of 15 to 1. The sense of honor and of moral obligation of the community had been dulled, not only by the direct acts of the assembly, but by repeated laws for easing debtors and a general system of judicial procedure that approached closely to a travesty on justice and seriously threatened the inviolability of contract. Many had become accustomed to do as they pleased in financial matters and lawful restraint to them was synonymous with despotism. Those versed in the political and social history of Rhode Island and the attitude of the people toward the federal constitution will easily understand that the state was a hotbed of such as not only opposed a centralized government, but suffering from debt, poverty and generations of laxity in business matters, opposed it because it stood for that very punctuality of payment and inviolability of written agreement which was foreign to their loose ideas of freedom. Some of them had forgotten that Rhode Island commerce had been threatened with ruin by a continuation of depreciated paper issues in 1751 and that only when, at about the close of the Seven Years' War, all money was kept

[1]Moses Brown Papers, Dec. 15, 1800.

at par with silver and money contracts had a tangible value, the state regained some of its former trade and entered upon the few years of its greatest business prosperity during the colonial era. The great majority of the people knew no way of paying one obligation but by creating another. They had used the state issue of paper money in 1786 for that purpose, and they were ready to toss up their caps in praise of an incorporated private bank that would aid them in the same way. They did not know that in any community based on the principle of private property the getting out of debt is just as necessary as getting into it. The Browns and their associates did. The bank process was devised to meet this state of habitual negligence in mercantile matters. It simply compelled such men to be punctually honest. Naturally they did not like it.

In some instances it may have worked hardship, but the misfortune of a single individual was by no means comparable to the hardships which might have been entailed upon the whole community by an irredeemable currency. It is seldom an injustice to require a man to keep his agreement. The injustice at that time lay not in the bank process as in the prevalent notion that the bank as a creator of money was a creator of wealth in which all wanted to participate. Few men knew how to use capital; fewer how to use credit. The system of issues of currency a few years later made the obtaining of credit easy. It was to blame for fostering imprudence, not the bank process for insisting that imprudence should reap its just punishment. There is no evidence that the bank process was abused or that numerous cases of hardship resulted from it. On the contrary, the banks frequently carried accommodation loans by renewal for many years, rather than distress a borrower.

The law also had its political relations. The peculiar individualism of the state which limited legislative action to a narrow field was illustrated in all the bank charters. The result was a remarkable absence of any degree of state control or supervision. The state as such never subscribed for bank stocks (it bought some bank stocks for the permanent school fund), as was the case with other New England states. No reports were required of the banks for many years. No limitations were placed upon their issues of notes and no bank charter was ever granted for a specific term of years. All were unlimited as to time.[1] In every respect the corporations were subject only to individual direction and management. This absence of restrictions was normal to the inherited customs of the people, but it placed a very great degree of responsibility upon the directors of the first few banks. They could not shield themselves by a technical conformity to restrictive

[1]Only one charter was amended so as to give it a limited life of thirty years, that of the Bristol Commercial Bank, June, 1811. The amendment was soon repealed.

law. The bank process, however, enabled them to shift some of their responsibility to the community, to which they were furnishing both a cheap money medium and liberal loans.

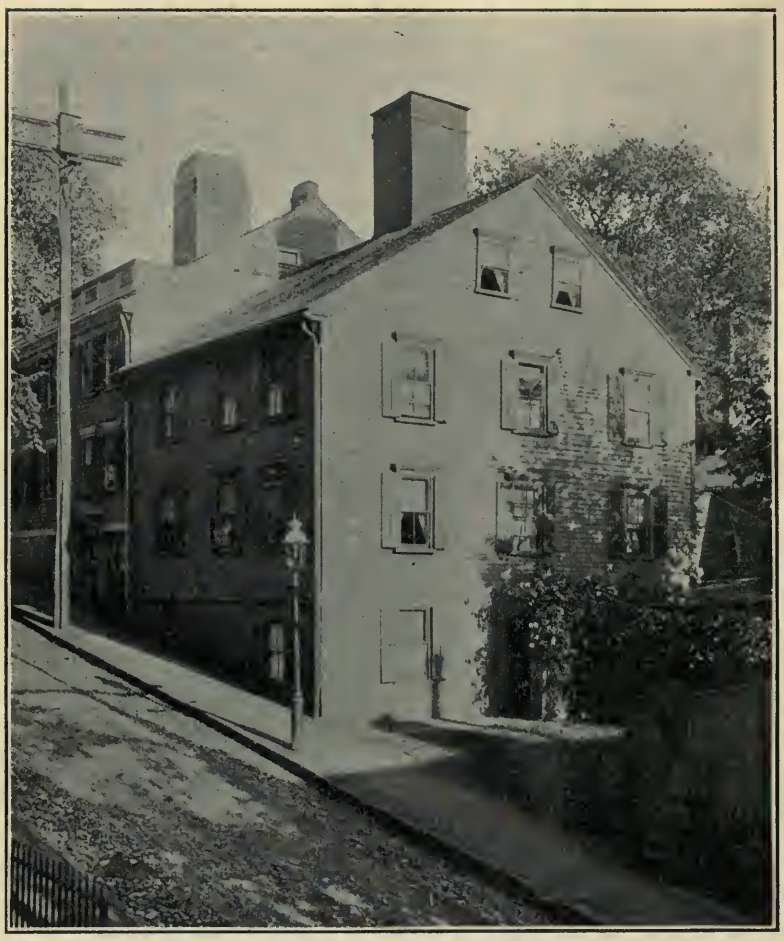
Such was the bank process in its origin. The false notions of currency, the demands of the community that the bank should issue it in liberal quantities, the trusteeship for the community's interest in maintaining it at par—all were parts of a system in which the bank process had a proper and necessary place. About 1810, when banks ceased to be trustees for the business interests of the community, when circulation was no longer issued to meet the needs of the community, but for the sole purpose of speculation and gain of a few stockholders —then the bank process became an anomaly, but some years passed before, in 1818, owing to these facts and to the business distress then prevalent, it was modified.

The Providence Bank acted also as a bank of deposit, but rather as a safe deposit vault than according to the modern deposit system. Discounting seems largely to have been done by means of cash payments of bills and coin, or by a check on some other distant bank, rather than by a credit of the proceeds to the account of the borrower.

With these functions and powers the Providence Bank opened its doors for business October 10, 1791, "on the south side of the new paved street commonly known by the name of Governor Hopkins's lane". In two small rooms on the main floor of the building still standing, this noteworthy institution transacted its affairs more than ten years. From the ceiling of the back room project two huge eye bolts, to which were attached the pulleys for raising from and lowering into the cellar underneath, the chests of silver and gold. The only entrance to the cellar-vault was closed at the end of the business day by a trap-door, and there is a tradition that in a chair placed upon it the bank watchman sat from sunset until bank hours in the morning.

Four years after the Providence Bank was organized the Bank of Rhode Island was chartered with $100,000 capital and authority to increase it to $500,000. In 1800 the Washington Bank of Westerly, and the Bristol Bank of Bristol, were chartered with $50,000 and $80,000 capital respectively, and authorized capital of $150,000 and $300,000, and by 1809 the legislature had chartered fourteen banks with capital of $1,535,000 and authority to increase to $5,000,000. The state population was at that time 75,000 and the actual banking capital exceeded $20 per capita.

Banking facilities so ample were of course not wholly an outgrowth of the commercial and agricultural business needs. Here, even more than elsewhere, the political and sectional influences early played an important part in the establishment of banks. Scarcely had the Providence and Newport banks been started when the agricultural



THE FIRST OFFICE OF THE PROVIDENCE BANK.

In Two Rooms on the Second Floor of this House the Providence Bank was Established in 1791. The Street Upon Which it Stands Was for Many Years Subsequently Called "Bank Lane." The Original Name of Hopkins Street Was Restored After the Bank Was Moved to South Main Street.

interests began to demand banking favors of the general assembly. Said the incorporators of the Washington Bank, in June, 1800, "considering that those banks, which are at present established in this state, are too remote or too confined in their operations to diffuse their benefits so generally to the country as could be wished; considering the embarrassments into which a farmer is frequently drove for the want of means of stocking his farm at those seasons of the year when money is obtained with the greatest difficulty; considering that in a place particularly fitted by nature to encourage the industry and ingenuity of the mechanic by holding out the sure prospect of a suitable return for his enterprise, nothing is wanting but those little assistances from time to time which banks only can give"—now therefore, etc. Two-thirds of the directors of the bank and the president were required to be residents of Washington county.

The preamble of the Rhode Island Union Bank of 1804 assumed that "a bank in which the agricultural and mercantile interests should be united would be productive of the most beneficial advantages to a state like ours, where those interests are so blended and dependent on each other. In the establishment of banks heretofore the interests of the farmer have not been sufficiently consulted and the pledge of his real estate, the best security in his power to give, is not accepted". The charter prohibited the bank from owning ships or vessels or being directly or indirectly concerned in trading and selling goods, except such as came to it by way of pledge.

Rhode Island bank charters did not, as those of some other states, set aside a specific portion of the capital to be loaned on land security, but the assumed antagonism of interest voiced in the preambles just quoted was repeated in ever broadening circles throughout the country for many years. The balance of trade so to speak, between the farming and commercial sections was more adverse to the former in this state than in many others, because of the poverty of the soil. The disadvantageous situation of the farming population, here illustrated in miniature, had its complete analogue a few years later in the relation between New England as the center of manufacturing and the middle west as the center of agriculture. As the farming section of Rhode Island complained of the towns, as commercial centers to which money media gravitated, so later the middle states and the west complained of New England as the point to which specie was always flowing. As population spread westward other states in turn tried the same banking experiments which had earlier failed in the eastern states; those experiments were always, under different forms, attempts to adopt a banking system to the farmers' needs. The attempt to issue circulation in liberal quantities on the mere credit of the issuer, and redeemable on demand in coin, and at the same time to make loans on farming

lands renewable for many years, was to attempt the impossible. The farmer needed loans for a series of years, and such loans being practically permanent investments, were entirely incompatible with the issue of money media convertible on demand. The absence of any effort on part of the early banks to accumulate a surplus aggravated the inherent difficulties of management. It is not surprising, therefore, that the Washington Bank was compelled at times to suspend dividends and replenish its "impaired capital."

The commercial banks, however, here had little superiority over the agricultural banks with regard to the length of time which their paper might run. Despite the thirty day clause in the rules of the Providence Bank, it could not but happen that a very large portion of its discounts and those of the other banks would be renewed again and again. There were long periods intervening between the beginning and the end of the voyages of the vessels belonging in Rhode Island—and its trade was almost wholly on the seas. Thus the discounts of the merchants approached very closely to long-time accommodation paper. The complaints of the farmers at this discrimination against them were, therefore, probably well founded.

Banks formed for the benefit of the agricultural interests, if managed properly, might have accomplished some of the ends for which they were organized. According to their preambles, at least, their object was the best interests of the community. Many banks, however, were chartered without preambles, and the reason for their existence was neither the benefit of the state nor that of the community. Some of them were purely personal institutions, organized partly, at least, as adjuncts to other lines of business or for political reasons.

The business most closely associated with early banking was that of insurance. For many years at first it was largely concerned with marine risks, and as the towns of Providence, Newport, Warren and Bristol were all engaged in the shipping industry, and the voyages were in many cases two years in length and involved valuable cargoes, the business was very profitable, though hazardous. Partly from its hazardous character it was necessary that the insurance companies should have large capitals. Such capital, however, was merely nominal in most cases, and like that of many of the banks organized soon afterward, was represented by stock notes payable in installments at various intervals. The insurance companies seem to have had no offices and the banks acted as their fiscal agents. In case losses necessitated, the stock notes were discounted by the banks, and a bank became a very necessary adjunct to the insurance companies, which had no quick assets, but were liable to be called upon for a large amount of money at any time.

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The business relation between the banks and insurance companies was close in other respects also. The marine risks which the insurance companies carried were large and, as is the custom to-day, the premiums were not usually paid by cash, but by notes. These notes were discounted at the banks also, and seem to have been considered a very valuable line of paper. They were long time notes, but not as long as the time of the voyage, and in order to insure the collection, as well as the stock notes of the stockholders, the power of the bank process was granted directly to some of the insurance companies.[1] In other cases, it was provided that where the bank acted merely as a collector for an insurance company, it could enforce the powers of the bank process with regard to such paper.[2] To such uses was the bank process thus early diverted.

In some cases the profits of the insurance companies began to reach considerable sums, and the money was invested largely in bank stocks. In some cases the insurance companies as corporations seem to have given their corporate notes for stock in banks just as individuals did. Thus the relation between them, which usually first arose because the same men were interested in both kinds of corporations, became an interest of mutual corporate ownership and of profit.

Thus we find the Providence Insurance Company, chartered in 1799,[3] bought stock in the Providence Bank. In 1814 it owned 150 shares and was the largest single stockholder of the bank.[4] The Newport Bank of Newport was incorporated in 1803. By the terms of its charter its president and directors were authorized to organize the Rhode Island Insurance Company, and the latter was to subscribe for one thousand shares of the bank's stock. As the par value of the bank stock was $60, and the amount of it was $120,000, this subscription amounted to one-half of the total issue of bank stock. The Washington Insurance Company of Providence was chartered in 1800. It seems to have been a competitive institution to the Providence Insurance Company and to have been managed by a coterie not altogether friendly to the Browns. Thus far the Providence Bank had had the local field alone. Now, in connection with the Washington Insurance Company, a project for a new bank, the Exchange, was brought forward. Brown offered to let the Washington Insurance Company into the Providence Bank on the same terms that the Providence Insurance Company had subscribed, and its promoters were offered the privileges

[1]Warren Insurance Company. Acts and Resolves, Feb., 1802.

[2]Charter of Newport Bank, Oct., 1803.

[3]The charter of the North American Insurance Company of Philadelphia in 1798 was the first charter in the United States.

[4]It is interesting to note in connection with the Providence Insurance Company, of which the Browns were the leading spirits, that soon after its organization it was voted to take no risks on vessels directly or indirectly engaged in the slave trade.

of the existing bank. These offers were refused, and the opposition to the new bank was then vigorously maintained in public by the friends of the old bank. Brown wrote to his brother that he feared the evil results of such a multiplex grant of bank charters. He thought "that all the neighboring states will at once put a prohibition, by general consent or otherwise, against any and all bank paper of our state". A reduction of circulation would follow, and small dividends would result. "Thus", said he, "reduced to small business, there may be found among some of the managers such frauds and inaccuracies as to stamp a curse on the whole banks of the state". His brother, Moses, wrote an argument to show that one bank could safely circulate "as much or more bank paper" than two. This argument John approved, but with regard to the personal feeling, which seems to have been engendered by the incident, he said, "though we ought to be careful to give no just offence in threatening to call in all our moneys due from the gentlemen who promote the new bank, it will of course take place". He had made an agreement with Judge Bourn, the promoter of the Bristol Bank the year before, that it should join forces with the Providence and the other existing banks against any new bank corporations. The arrangement did not avail, however, and the opposition failed to hinder the issue of a charter to the Exchange Bank in February, 1801. Perhaps as the Browns and their friends were federalists, the republican tone of the state government at the time was not favorable to them.

The charter of the Exchange Bank provided for 4,000 shares par value of $50 each, and the Washington Insurance Company was authorized to subscribe for 1,100 shares. The Bristol Insurance Company was organized in February, 1800; the Bristol Bank, in June of the same year. There was a Warren Insurance Company and a Warren Bank. Within the period 1799-1807 ten insurance companies were organized in the four seaport towns of the state and nine of them engaged in active business. In the same towns there were nine banks and the insurance companies, so far as observed, owned stock in most of them. A similar relation between the Merchants Insurance Company and the Bank of Commerce, both of Providence, illustrated these facts as late as 1851. It is significant that the first restrictive law as to corporations, passed in 1809, was called a law regarding the "process against banks and insurance companies."

In the organization of the Roger Williams Bank, chartered in 1803, politics seemed to have had some part. Previous to that time the United States deposits had been carried in the Providence Bank. In 1803 Jefferson wrote to Secretary Gallatin, "as to the patronage of the republican bank in Providence, I am decidedly in favor of making all the banks republican by sharing deposits amongst them in proportion

to the dispositions they show".[1] The Roger Williams Bank soon began to get the public deposits and continued to hold them until the second United States Bank established a branch in Providence in 1817. The Bristol Bank carried the government deposits in Bristol; the Newport Bank in Newport. These three were the only banks in Rhode Island which purchased United States bonds during the war of 1812. Their political affiliations were thus apparent.

The charters granted to the banks beginning in 1800 contain slight but important modifications when compared with the charter of the Providence Bank, such modifications applying chiefly to the terms of payment for the stock. Not infrequently in the case of country banks the requirement that the stock be partly or in whole paid for in specie was omitted. The number of installments upon which payment might be deferred by the directors was increased; in some cases three out of seven were thus deferred. The payments for the stock of the Exchange Bank of Providence extended from February, 1801, to October, 1802, but by an amendment, adopted in October, 1801, the directors were permitted to extend the payment of any or all subsequent installments. The installments of the Farmer's Exchange Bank of Glocester were seven in number. A cash deposit of $1 per share was required with the subscription, and the remaining payments were extended over three years from February, 1804, to March, 1807.

Other modifications in the charters affected the powers of stockholders and directors. No shareholder in the Newport Bank (chartered 1803) could transfer his stock while indebted to the bank, and if a stockholder's obligation was not paid at maturity, the directors were authorized to summarily dispose of enough of his stock to cover the bank's claim. Not long afterward it became customary to insert a clause in all charters pledging stockholder's stock for their debts to the bank. The Rhode Island Union (chartered in 1804) was the first bank in which the voting power of the stockholders was equivalent to the number of shares held, and though in most previous charters it had been provided that stockholders' meetings could be held only annually, unless called at other times by the directors, in the Rhode Island Union such meetings must be called on the request of the holders of 300 shares. In the Narragansett Bank of Wickford, chartered 1805, holders of 200 shares had the power to order a stockholders' meeting. The Smithfield Union Bank charter, 1805, provided that directors must own at least five shares, while in the Rhode Island Central Bank of East Greenwich, directors were required to hold twenty shares. The directors of the Bristol Commercial Bank (chartered 1809), and others chartered at about the same time, could not hold directorships in other banks.

[1]Gallatin's Works i, 129, July 12, 1803.

These restrictive provisions in the charters tell the story of practices then beginning to be prevalent. It did not follow, however, that because charters contained certain clauses, those clauses were generally obeyed. In banking, as in other lines of business, in the absence of rigid state supervision honesty of management and success as well depend wholly upon the character of the managers. The most unique illustration of the limits to which bank frauds could be carried was that of the Farmer's Exchange Bank of Glocester.

The origin of these frauds was not wholly local. The profits of banking during the first few years of the century caused the issue of a large crop of charters, especially in Massachusetts, Maine and New Hampshire, between 1800 and 1810. The notes of these banks flowed into Boston as to a clearing house. They quickly fell below par and displaced the issues of the Boston banks in all local transactions between individuals. Money brokers began to deal in them, charging one-fourth per cent. for exchanges. In 1804 the Boston Exchange Office was incorporated and devoted its attention to the business of exchanging money. About the same time the brokers began to send the excessive issues of the country banks home to be redeemed. The less accessible the home bank, the more costly was the process of redemption to the brokers. Hence speculators began to charter banks in the most remote and out-of-the-way places of Maine and New Hampshire. The chief of these swindlers was Andrew Dexter, Jr. He bought up the stock of the Boston Exchange Office and of several cross-road banks. Among them was the Farmer's Exchange Bank of Rhode Island. This was in 1808. In March, 1809, "the funeral of the Farmer's Exchange Bank" was "on its way to the general assembly in East Greenwich".[1]

A committee of investigation had been appointed in February and a report was rendered at the March session of the assembly. The legislative halls were crowded with spectators who listened to a story that surpassed their strangest dreams. The committee stated that from the day of the issue of the charter the directors as a whole had no proper knowledge of the affairs of the bank. Some of the stockholders had no notice of the suspension of payment of the last installment for their stock, and thus paid for their holdings in full in cash. The directors paid no money whatever. They paid their first installment in specie, but soon afterward took an equal amount of notes, for which they gave no receipt. For part of the first five installments they gave personal notes without indorsers, and for the last two installments they gave nothing. They held 103 shares each. Instead of a subscription for 2,000 shares, as required by the charter, the bank started with only 661 shares subscribed. The paid-in capital at the outset was

[1]R. I. American, March, 1809.

$11,806.61. The installment which the directors withdrew left the bank with an actual cash capital of $3,081.11. In 1805 the directors voted themselves $200 each in bills. They took other bills of the bank into the neighboring states and bought corn and other products with them, making no return whatever to the bank. In February, 1808, they voted to divide the whole assets of the bank among themselves, but they did not carry out the plan. In the following month, however, they bought of sundry stockholders 450 shares and paid for them with the assets of the bank, largely by means of notes of the stockholders themselves, which had been given to the bank for money borrowed and were at this time returned to them. The institution was then ripe for Mr. Dexter. During the year the directors sold out to him or to his agents and themselves received pay from the remaining assets of the bank. The amount of their purchase money was $1,300 each. Dexter paid for the whole bank $3,784.95. The directors had already by vote turned over to him the plates on which the bills of the bank were printed. He had bills printed and sent to the cashier, who was ordered to sign them at night and return them secretly and as rapidly as possible. The cashier obeyed this order. Dexter had at the same time a bank in Berkshire. The bills of the Farmer's Exchange Bank were paid out over the counters of the Berkshire bank, and those of the Berkshire Bank over the counters of the Farmer's Exchange Bank. As the bills of both banks were redeemable in specie, both banks were thus "specie paying". Dexter had banks all over the country, and among the bills paid out by the Farmer's Exchange Bank were some of the Marietta Bank of Ohio. He borrowed from the bank at various times, in some instances giving notes payable in eight years and in others giving notes of which the following is a copy: "I, Andrew Dexter, Jr., do promise the president, directors and company of the Farmer's Exchange Bank to pay them ——— dollars, two years from date with interest at 2 per cent. per annum, it being, however, understood that said Dexter shall not be called upon to make payment until he thinks proper, he being the principal stockholder and best knowing when it will be proper to pay the same". Dexter borrowed in all $845,771. The bank, largely through him, had issued $644,843 of currency, of which about $580,000 were still outstanding when the committee made its report. The total assets of the bank consisted of $86.48 in specie. The general assembly had attended the funeral, but there was not even a corpse left to bury. "Such a scene of dishonesty, dissimulation, turpitude and everything that is iniquitous", said the American, "was never, we believe, before exhibited to an astonished public".[1] A letter to Mathew Carey from Boston said, "It is impossible for us to picture the ruin and distress that followed,

[1]March 24, 1809.

the effects of which are still remaining. It is said, and we presume correctly, that in one county of this state there were $100,000 of the bills of the Farmer's Exchange Bank in circulation at the time it failed, and probably in the state (Mass.) there were $400,000 or $500,000, all of which, after being bartered at various discounts, became a total loss to the last holder, which in most cases were the poorer and less informed parts of the community. There is no doubt that thousands of farmers will be ruined, and leave their families in poverty, in consequence of the facility with which they obtained money at the banks by mortgaging their estates".[1] The directors escaped from the state and from punishment. The cashier suffered nothing worse than a few months' imprisonment. It was soon afterwards announced that "the bank is shut, probably never to be opened for a similar business. The sign is taken down, and the keys are in the vicinity".[2]

The case of the Farmer's Exchange Bank was exceptional. A few other instances of gross mismanagement will be noted from time to time, but no note holder or depositor of any other Rhode Island bank ever lost a dollar until after the Rebellion, except during the general suspension of specie payments in 1837-38, and in 1857-58. The whole losses in every case fell on the stockholder, and as in most instances such stock had been fraudulently secured and fraudulently paid for, the result was justice rather than injustice. The Rhode Island banks which were managed and controlled by local interests did not adopt to a great extent the plan elsewhere common of issuing large sums of bills and sending them into other distant states for use by their specially appointed agents. The practice so far as it prevailed was almost wholly confined to banks owned by parties outside the state. Outside banks, however, had agents here. The Detroit Bank had an office of discount and deposit in Providence,[3] and when it became bankrupt some of the bills were in local circulation. About $200,000 of the notes of the Eagle Bank of Connecticut were in circulation in Rhode Island when it failed. Rhode Island suffered not so much from the depreciation of notes issued by local banks as by the notes of banks outside the state. The sellers of lottery tickets became money changers, and the association of the two lines of business had a large degree of fitness.

In 1805 the issue of notes by private parties intended for circulation was forbidden. At the same session at which the report on the Farmer's Exchange Bank was presented the legislature, with that post mortem sagacity which had not infrequently characterized its doings, passed a law defining and regulating the "process against

[1]History of Banking in all the Leading Nations, i, 38.
[2]American, March, 1809.
[3]Gazette, March, 1809.

banks and insurance companies''. Directors were made personally liable for all the debts of the bank after the property of the corporation had been exhausted, and such liability was enforceable by writ of *scire facias*. The amount of debts of a bank on a bond, bill, note or other contract, was limited to the capital stock plus the deposits.[1] Under this provision the circulation could not exceed the amount of the capital stock plus the deposits. No bank was to issue a bill or note for a less sum than $50, payable out of the state, and no individual was allowed to pass a bill under $5, issued by a bank outside the state. Returns were required of the banks of their condition on some one of the ten days preceding October 3rd, of each year.

These returns made on a day selected by the banks themselves, and fixed within certain limits for a year in advance, were of course no criterion of the banks' condition, but the system was continued, with some modification of details, until 1836, when returns were to be made on a day set by the bank commissioners.

In October, 1809, thirteen of the banks made their first official report, and although they were on dress parade, some light is thrown on their methods. The full statistics will be found in the table accompanying this chapter. The statement that with $434,800 bills in circulation, they had in their vaults $410,800 in specie, $79,000 of the bills of other banks and $88,200 deposited in other banks, thus showing cash assets of $143,000 in excess of their circulation, evidenced the misleading character of the statement at once. It would indicate that banks which were founded on circulation principle and with the avowed purpose of making profits from such issues, had abandoned their chief reason for existence, had in their vaults more circulating medium than they had issued, and were making their dividends solely from the loan of their capital and deposits. Four of the banks had more specie on hand than the amount of their notes issued. The Providence Bank, for instance, with circulation of $64,800, had $111,100 specie in its vault, $82,800 deposits and $438,400 of discounts. The Washington Bank had $36,400 bills out and only $6,600 in specie. It had $113 of deposits and $69,000 of discounts. These two banks are typical of the difference between the town and country institutions, and the statement of the latter was probably much more nearly the average condition of the banks with regard to specie and circulation. The proportion of one of specie to six of circulation was not at the time considered excessive. The Rhode Island Union Bank of Newport returned among its liabilities $630 sent to Philadelphia to be put in circulation. The $88,200 of deposits in other banks, reported at the same time, coupled with the thought expressed in the law of March

[1]The term debts here being used, as indeed was the case usually until 1850, to apply only to obligations due to the public in the form of deposits, circulation and small amounts sometimes borrowed from other banks or individuals.

prohibiting the issue of notes of small denominations payable elsewhere, would indicate that it was not alone in this practice.

SECOND PERIOD—1809-1840.

The year 1809 marks the end of the period when the establishment of banks can be said to have been the result of a desire on part of their incorporators to promote the interests of the community.[1] Bank charters were thereafter liberally granted for personal gain and were tossed back and forth through the two branches of the legislature on the plan of give and take. The second period of banking, lasting from 1809 to 1840, was marked by a gradual increase of supervision by the state, and various restrictive laws as to loans and issues of circulation and, by spasmodic and for brief periods, effective attempts to stop the wholesale issue of charters. Events of national importance had their effect in the local field. The affairs of the United States banks, the war of 1812, the embargo act, the tariff laws, the beginning of the Suffolk system of note redemption—all materially modified the character and extent of local banking.

It has been customary in writing banking history to treat New England as a whole and compare it with the western states, thus emphasizing only points of difference in the amount of circulation and methods of redemption. In such a treatment, however, much of the economic relation of certain important phases of banking in New England has failed to receive due consideration. A more complete separation of the New England states into groups will illustrate statistically fundamental points of difference. For this purpose the three northern states form one group; the three southern states form another group. A comparison of these two groups shows that in the southern tier of states, during the whole of the period from about 1810 to 1865, the circulation function of banking based on the circulation principle had given way to the circulation function based upon the banking principle. This condition manifests itself in the fact that in these states the amount of the capital stock in banks, and not the amount of their circulating notes, was the most distinguishing characteristic. It will be seen from the subjoined statistics that the proportion of their circulating notes to their capital stock was very small, when compared with the three northern states; and should a comparison be made with the western states, the characteristic would even be more marked. It followed, of course, that the function of banking in discounting by means of capital, rather than by means of note issues, was also their distinguishing feature.

The following figures have been selected because of their availability and not for any peculiarity due to a difference in dates. They

[1]Bank charters were inserted in the Digest of General Laws in 1798. In Connecticut they were incorporated in the General Laws as late as 1821.

are typical of the whole period covered. The figures are given in millions and thousands only, 000 being omitted.

		Capital.	Circulation.	Discounts.	Deposits.	Percentage of Circulation to Capital.
Maine	1820	$1,600,	$1,400,	$	$	88
New Hampshire	1831	2,000,	1,100,	2,900,	270,	55
Vermont	1834	920,	1,460,	1,900,	180,	159
Average						88
Massachusetts	1820	10,600,	2,600,	13,500,	3,200,	25
Rhode Island	1821	3,200,	675,	3,100,	460,	21
Connecticut	1834	6,800,	2,400,	8,300,	1,200,	35
Average						32
1855.						
Maine		7,300,	5,100,	12,700,	2,500,	70
New Hampshire		4,400,	3,600,	8,000,	950,	82
Vermont		3,600,	3,700,	6,700,	800,	103
Average						80
Massachusetts		58,600,	23,100,	99,500,	21,900,	39
Rhode Island		18,700,	5,400,	26,400,	2,900,	29
Connecticut		17,100,	6,800,	23,700,	3,400,	40
Average						37

The facts here shown with regard to the three southern New England States are more particularly true of Rhode Island than the other two states, its percentage of circulation to capital having been four per cent. less than that of Massachusetts in 1821 and ten per cent. less in 1855. To the extent of its superiority in these respects is it true that Rhode Island banking was based more on real capital than any other state in the Union. The facts are the more remarkable, because the restrictive laws relating to circulation, while different in point of time of enactment in the New England states, were very similar in their provision; because the Suffolk system of redemptions prevailed throughout all alike, and because precisely the same methods of paying for capital stock by means of stock notes were adopted everywhere. It is further true as regard the laws limiting the amount of a bank's indebtedness and its circulation, that they had little effect, because in none of these six states were the limits set by statute approached by the banks (except of course in a few cases of noteworthy mismanagement). From this fact we may also conclude that here the development of banking was to a large degree a normal adaptation of banks to the business needs of their respective communities. And finally, if we accept the fact that inflation was the most common characteristic of all banking at this time, it remains to be explained why the inflation

of Rhode Island and its two neighboring states to a nearly equal degree, expressed itself in the form of capital stock rather than in the form of note issues. This explanation will be found in local economic conditions, of which banking was but a part, and partly in the methods adopted among the banks themselves for restricting currency issues. We shall treat of the latter topic first.

In 1809, when the western state banks were suspending specie payments, the "bank thermometer" of Rhode Island announced that the bills of all state banks were redeemable in specie except the Smithfield Union, which paid with checks at thirty days' sight on Boston, "with interest in advance". The circulation of the banks was not large in comparison with other states and when, owing to the expiration of its charter in 1811, the bills of the first United States Bank were withdrawn, local circulation was issued to take its place.[1] The issues increased from $460,000 in 1811 to $770,000 in 1813. Circulation was increased in other states in even greater proportion. There was a great redundancy of bills in Boston. They depreciated from one per cent. to five per cent. The Boston money changers reaped a harvest. The exchanges of bills reached $100,000 a day, and the annual cost to note holders was estimated at $120,000 in that city alone. The condition paved the way for the action of the New England Bank of Boston, which advertised to receive bills at a discount equal to the cost of sending them home for redemption. The Rhode Island banks were accessible, and under the influence of the redemption system, their issue decreased from $770,000 to $549,000 in one year. Thus, when in consequence of excessive issues, all the banks outside of New England suspended in August, 1814, the local banks had already reduced their circulation to such a point that not only was there no thought of suspension, but the circulation was increased $30,000, and this, although at the same time the specie holdings of the banks had decreased $80,000. The New England Bank system, which had reduced rates of discount on bills to about one per cent. from 1814 to 1818, was the cause of the inauguration of the Suffolk Bank System of redemptions in 1819. The Suffolk Bank offered to redeem the bills of any bank, charging therefor the same price which it paid, provided the bank would keep a permanent deposit of $5,000 with it. The deposit of $5,000 was not required of the banks of Providence and Newport, which already had accounts with the Suffolk, provided they would keep all their deposits with it and have money enough to redeem their bills at all times. The Merchants Bank of Providence became the satellite of the Suffolk and handled its Rhode Island business. It made arrangements with most of the state banks to redeem for them

[1]It was estimated that $24,000,000 of the $50,000,000 circulation in the country was of the United States bank notes.

the bills of all other banks except those located in the same town. For this purpose it issued much of its circulation in the form of large bills from $100 to $1,000 and had an understanding, though not an agreement, with its associated banks that such bills, when received by the latter in course of their business, would be retained by them and would not be presented for redemption in specie, but only in payment for their own notes, which the Merchants had received from out of town banks for redemption. The Suffolk Bank soon improved upon its original system and agreed to receive at par from its allied banks all the bills of other banks in good standing, modifying at the same time the $5,000 deposit to suit the condition of each bank. The system was received with bitter denunciation by many of the country banks, as it compelled them to keep a larger specie reserve and at the same time reduced their circulation and the profits from it. The association of banks was derided as the "Holy Alliance". Some Rhode Island banks refused to join. They were the Cranston, Kent, Village, and the Fall River Union Banks. As the first three of these banks had, in 1819, a combined capital of $46,600, a circulation of $50,800, the reason for their opposition and that of many like them in other states was manifest. A few of the banks had been not only making high profits out of excessive issues of circulation, but they had also reaped large gains by buying their own bills, through their agents, at a discount. Their most serious grievance, therefore, was that their paper was raised to par by the redemption system and they were deprived of their profits on its depreciation.

The sub-system established by the Merchants Bank simplified the redemption of all bank bills by Rhode Island banks, but it had other additional merits over the Suffolk system. It covered a compact and easily accessible territory. Its refusal to receive from any bank the bills of other banks in the same town, left to each bank the care for its own circulation by frequent redemptions of the bills of its immediate local competitors, while it cared for the redemptions of the banks by groups in each town. Like the earliest government in Rhode Island, it provided for complete local autonomy of the banks while it managed their intertown relations. This development of the system was peculiar to Rhode Island. Within state limits it facilitated and accelerated redemptions to a degree nowhere else possible. Toward the close of the era of state banks, when nearly one hundred banks were issuing circulation varying from $3,500,000 to $5,300,000, the average local life of a bill did not exceed a fortnight.[1] The rapidity of circulation and redemption rendered great inflation impossible. An ardent admirer of the Boston plan says that, starting almost without outside support,

[1]The author is indebted for this fact, as well as for many others of the greatest value relating to local banking, to George C. Noyes, Esq., for many years associated with the Globe Bank of Providence.

"assisted by no law, progressing tentatively as each necessity prompted the invention of new means to meet it", the Suffolk Bank evolved a system, "under which, to an extent never approached in its efficiency by any plan elsewhere created by law, the bank note currency of New England was made elastic, safe and ideally convenient and inexpensive in use".[1] While such a statement may not be received without some limitations, it is nevertheless true that the system received its most perfect exemplification in Rhode Island. The bank process had been invented by the projectors of the Providence Bank to compel improvident individuals to be honest with the bank. The Suffolk system compelled the banks to be honest with each other.

The successful operation of the system in the southern New England states as compared with their northern states was largely due to concentration of the banking institutions in localities reached by easy means of communication, and the very contrast between it and the northern sections in the amount of circulation which they kept out in proportion to their capital, though all were subject to the same general system, would indicate that without important modifications the Suffolk plan could not have been projected upon the whole United States. But within its sphere, however, it was an efficient mechanism, and because of it as a purely self-centered expedient and not because of restrictive laws, it was almost impossible for the banks of southern New England to keep in circulation excessive issues of bills, and therefore from causes operating within the banks themselves, the issue of currency on the circulation principle was impracticable. With a few such exceptions as have been noted of country banks, and they were not types of any importance, the banks of Rhode Island never issued circulation exceeding one-third and on the average not to exceed one-fifth of their nominal capital stock. Recalling the large profits of the business by means of which real capital was quickly accumulated, it is probable that at no time did the note issues exceed one-half the actual capital stock and at no time approached a condition where it could be said to have been issued on the simple credit of the issuer. In fact, the theory that the amount of circulation safely issuable is governed by the demand of the community, regardless of the assets of the issuer, though avowed by the community in 1791, was never put in practice by John Brown or any of his successors in legitimate banking in the state.

While, therefore, the value of the Suffolk system as a check to swindlers may be acknowledged, the real reason for the small issues of circulation in Rhode Island and the large issues of capital stock must be found in the character of the business which the banks performed. It has been noted that long time loans on land or accommodation loans

[1]Whitney. The Suffolk Bank.

are incompatible with the issue of circulation. It has also been observed that the commercial enterprises of the merchants and the long periods occupied by their sea ventures made their notes very similar to accommodation paper and that much of the paper discounted during the first fifteen years of chartered banking was of that nature. The men, therefore, who projected these banks had much more to gain by securing a large line of permanent or renewable discounts than by the issue of large amounts of bills, the redemption of which at any time might necessitate the paying of their loans. The actual payment by specie and bonds for the stock of the Providence Bank and others at first formed gave the directors the real capital with which to make such loans.

The embargo of 1807, the war of 1812, and the tariff act of 1816 laid the foundation of New England manufactures, and they succeeded to the commerce which had been ruined by the embargo. While the consumption of cotton was 10,000 bales in 1810, it was 90,000 bales in 1815. In 1816 the value of cotton goods manufactured within a circle of thirty miles surrounding Providence was $3,500,000; about one-fourth of the total consumption of cotton, or 25,000 bales, found a market here. New England, and especially Rhode Island, was manufacturing for the whole country. Specie flowed here and the west was drained. In New York exchange on Boston was uniformly at a premium. In 1813 it was one-half per cent., and by January, 1815, it had reached 23 per cent. It fell in 1816 to one and one-half per cent.[1] When the Southern Bank of Baltimore, followed by the banks of Philadelphia and New York, suspended in 1814, they were debtors to the manufacturers of Providence and the territory immediately surrounding it to the extent of $1,000,000. Owing to the depreciation of their bills and their refusal to pay interest on their obligations, on which payment was deferred, the manufacturers of New England were compelled to accept a loss of from 10 per cent. to 15 per cent. on the moneys due them,[2] and although for the time being the loss hampered local industry, the enormous profits of from $1 to $8 a yard on woolen goods and almost proportional profits on cotton soon recouped the losses.

For a community thus industrially situated fictitious circulation had no advantage. Real capital was necessary, and though it was rapidly being created, the manufacturers took advantage of every opportunity to borrow in other markets. The banks in southern Massachusetts and eastern Connecticut were heavy loaners to Providence merchants. When in 1816 the project of a United States bank was again broached as a regulator of the currency, and the circulation banks throughout

[1] United States Treasury Report, 1818.
[2] R. I. Hist. Society Mss. "Banks."

the country were opposing it, Providence manufacturers and bankers requested that a branch might be established here.[1] The first signatures to the request were those of the Browns and their associates. A branch was desired for the facilities which it would offer for discount. It was established in 1817 and Phillip Allen, then closely associated with the interests of the Browns, was selected as its president. In September, 1819, it had local discounts amounting to $374,000, but

OFFICE OF THE SECOND UNITED STATES BANK

The Providence branch of the Second United States Bank was in this building, at number 23 and subsequently at number 25 South Main St. This was the favorite business street and in 1840 the American, the Globe, the Blackstone Canal and the Mechanics Banks were located in this and the adjoining building.

although it had in its vaults $225,000 of its own notes, the amount of them which it had succeeded in getting into circulation was only $38,300.[2]

The length of time required for these loans is scarcely now comprehensible. This process is thus quaintly but clearly described by an active participator in it. The "merchandise being sold on credit of

[1]Moses Brown Papers, Oct., 1816.
[2]United States Treasury Report, 1819.

from four to six months, chiefly the latter, the notes which the consignees receive for it, when sold, must be discounted at the banks to meet the drafts of the shippers, payable at sight, or at very short dates. And these notes again, such of them as are given for the raw materials for manufacturers, when they fall due, are taken up by further discounts of the drafts of the manufacturers on their distant agents, payable some months still later than the notes were. It is this great length of time between the advances made by the banks, for which specie is required in all periods of pressure, and the return of the money to them, that limits the aid they can afford in the transaction of business to less than one-half of what they might give if the notes and drafts discounted by them were payable in sixty days".[1] The nature and character of its industry was such that Rhode Island like a sponge sucked up available banking capital from everywhere, and such were the rates of discount, reaching in times of stress as high as 24 per cent. and 36 per cent. and normally averaging 12 per cent., which the manufacturers could afford to pay, that the profits on banking soon turned stock notes into real capital. Just as the banks were the necessary adjuncts of the insurance companies in the earlier years, so they were from this time forward necessary attendants of the growing manufacturing industries of the state. If the large profits then received, the nature of the exchanges and discounts and the character of the local industrial organization are considered, it will be seen that, though nominal banking capital seemed to savor of inflation, banking in fact did not absorb more than its due proportion of the increase in real capital. In the absence of any deposit banking, in the present use of the term, and because of the unfitness of circulation banking, banking on capital stock was the only means by which industry could secure its necessary discount accommodation. On the other hand the very prosperity of that industry kept the balance of trade in favor of New England and drew to Rhode Island banks, until 1850, an abundant stock of coin, which at no time fell below 40 per cent. of their circulation, and was usually much above that proportion.[2]

[1]Report on Banking Capital, 1826.

[2]It has been assumed that a large amount of capital from outside the state was invested in bank stock in Rhode Island because of its peculiarly liberal banking laws. There are now few available evidences of such investments. In so far as the practice is known to have prevailed it was almost wholly confined to a few of the "circulation" banks of the country towns, the control of which was sought for fraudulent purposes. The stock of the commercial and profitable banks was jealously guarded, for the obvious reason stated in the text; that they were the fiscal agents of the industrial corporations and were largely owned by the men whose enterprises they aided. The capital of Rhode Island banks, at least until 1850, was created by their earnings.

Nevertheless the liberality of Rhode Island banking laws was notorious. Connecticut bank charters were always subject to amendment or revocation; they usually contained clauses reserving to the state and charitable institutions the right to subscribe to bank stocks. The state distributed among its

The success of the banks led to their rapid increase from thirteen in 1809, with a capital of $1,535,000 and discounts of $2,000,000, to forty-four in 1826, with a capital of $5,570,800 and discounts of $6,217,800. So many charters were applied for in the latter year and the attendant circumstances were so suspicious that a committee was appointed to report on the question of the increase of banking capital in the state. A brief account of the laws and charter provisions to 1826 will aid in understanding their report.

The charter of the Union Bank, dated 1814, was the first to increase the stockholders' liability beyond the amount of his investment. By its terms stockholders were personally liable if the directors violated the bank process act of 1809. At the February session of the legislature in 1818 the bank process act was amended in several particulars, but while the committee was considering the nature of the changes necessary, charters for ten banks were granted, each containing the original form of the bank process power against its debtors. Two of the banks, the Merchants and Eagle, were to be located in Providence, but most of this batch of charters were granted to country towns and to incorporators who had no other purpose in view than to dispose of them for a good price, because they conveyed valuable privileges. At the October session of the same year two charters were issued whose history illustrates this fact. The New England Pacific Bank of Smithfield was not legally organized, and in 1820, some years after irregularities of its incorporators had voided the charter, it was sold to innocent parties outside the state. The sum paid for it was said to be $1,000. The legislature passed amendments to its charter in 1826, and the bank as the Pacific had a subsequent honorable career. The Burrillville Bank was chartered at the same time. New York parties, in collusion with one of its directors, attempted and nearly succeeded in getting control of it for "circulation" purposes, but the scheme was

banks a large portion of its receipts from the United States in payment of its revolutionary debts, and thus also acquired direct interest in its banks, and they were subject to rigid inspection in consequence in 1803. It taxed them on their capital and charged a large bonus on incorporation. Massachusetts also began a system of strict state supervision in 1803. Its banks were prohibited from engaging in commerce and trade. The charters reserved to the state the right to tax them and to increase their taxes. These taxes early (viz.: 1814) were one-half per cent. on the capital stock and a large bonus. Their circulation was limited at about the same time to 50 per cent. of their capital, and a little later the loans to directors were limited to 30 per cent. of the capital, while in 1809 a penalty of two per cent. was imposed on banks for failure to redeem bills on demand in specie. The charters were always terminable usually in twenty or thirty years. The charters of Rhode Island were perpetual. Until 1837 circulation could equal the capital. Taxes of one-twentieth per cent., first imposed in 1822, were increased to one-fourth per cent. in 1836 and one-third per cent. in 1855, but did not at any time exceed that sum. The Rhode Island banks had the bank process power, but a very similar power was enjoyed by the Vermont banks under a law of 1809.

discovered and stopped in 1827. It was a typical country bank, showing in 1826 capital $31,400, circulation $27,800.

The amendments of 1818 to the bank process of 1809 affected mainly the debtors of banks. The power of summary judgment and execution, which had been granted to all banks by the terms of their charters, was repealed and the collection of the debts due them was confined to the regular legal processes, with the exception that while in the ordinary procedure a creditor had recourse first to the person of debtor, then to his personal estate, and lastly to his real estate, banks were given power to at once attach the property of the debtor. This act had a suggestive history. It was passed at a time when the state was in the midst of an industrial depression, more severe than had been before experienced since the Revolution, and when, therefore, the summary execution of the original bank process power could have caused great injustice. These years were prolific in the discussion and passage of acts for the relief of insolvent debtors. The amendments to the bank process power may therefore have been partly the result of peculiar economic conditions. Moreover by this time there was a general sentiment among the stronger banks that the power was unnecessary and they were not unwilling to dispense with it.

In 1819 the Dartmouth College case was interpreted as endowing a charter of incorporation with the character of contract. The inviolability of this constitutional right became the basis of court decisions relating to banks for many years. The original bank process power was a charter right, and the statute of 1818 repealing it was, therefore, of doubtful legality. This statute contained two clauses relating to this subject. One provided a new form of the bank process, and another repealed all then existing bank process powers. In the revision of the laws in 1822 there was a general act of repeal, and the bank process power, as defined in the law of 1818, was re-enacted, to continue in force until January 1, 1823. It was expressly provided that all charters theretofore granted should remain in full force. The revival of the original bank process power in 1823, therefore, seems to have been a concession to the then prevailing notion of the constitutional rights of contract, rather than the result of any effort to re-introduce this provision into actual practice. No charter subsequent to 1818 contained the original bank process power. In 1826, as we shall see, it was generally regretted that such a power had ever been granted to the banks. In 1836 another law was passed, repealing all special forms of process against the debtors of banks, and the lack of constitutionality of such a statute was tacitly ignored in the universal desire to repeal the obnoxious charter right. We may, therefore, conclude that its continuance in nominal force from 1823 to 1836 was the result of the then strong sentiment in favor of upholding every vestige of constitu-

tional right, just as the ready acquiescence in its repeal in 1836 was made possible by the decadence of that sentiment under the Jacksonian democracy. The practical repeal of the bank process power dates in 1818, when the strong and commercial banks in the large towns, both by their own industrial association and because of the results of the currency inflation throughout the west, had already become convinced that the issue of a large circulation on the credit of the issuer or on assets of a contingent character, was not within the scope of their functions. The power which had been evoked for the purpose of protecting circulation of that character had, therefore, lost its chief reason for existence.

In June, 1820, banks were prohibited from issuing circulation in excess of the paid up capital.

No further legislation of importance relating to banking was enacted until after the report on banking capital in 1826.

The numerous petitions for bank charters during the few years preceding 1826 and culminating in that year—fourteen charters having been granted by Massachusetts, eighteen having been petitioned for and refused in Rhode Island, an increase in the capital of six having been also refused—were believed to be the result of world-wide phenomena. The central fact of these phenomena was a disproportionate conversion of circulating capital into fixed capital. Subsequent to the Napoleonic wars large amounts of capital were attracted to many enterprises in South America and Mexico by the increased production of silver. Within the United States the surplus of dormant and circulating capital, which had ceased to find an outlet in manufacturing enterprises after the depression of 1818-1819, had created a field for itself in fostering large public improvements and speculative projects, an illustration of which in Rhode Island was the Blackstone Canal from Providence to Worcester, begun in 1823, the stock of which was subscribed three times over. To add to these economic facts, owing to an overvaluation of silver as compared with gold, the latter had disappeared from circulation in 1817, and in 1823 the scarcity of money metals led to the act of congress declaring many foreign coins receivable for public lands. The currency of the United States Bank, from which so much had been expected, had not been received with eagerness by the public. Everywhere there were evidences of a change in the form of capital and a consequent relative absence of real money. Indeed, these were the beginnings of the movement which was temporarily checked by restrictive laws relating to banking, and which, fanned into flame by the caprice of Jackson in 1832, culminated in 1837. As usual, the lack of circulating capital and the high rates of discount were mistaken for a lack of banking capital and of circulating money media. The forty-four existing banks of Rhode Island had

authorized capitals amounting to $10,350,000. The additions to this sum requested May, 1826, by new banks and increases to the capital of old banks would have raised the total authorized capital to $16,600,000. A committee, of which Benjamin Hazard was chairman, to which the petitions were referred by the legislature, rendered a report in June. The document is the ablest contribution to the theory and practice of banking in the state now extant. It appeared that most of the charters were asked for by those who lived in the agricultural sections of the state, where loans, if made, must be permanent and could not, therefore, be a safe security for circulation. Mr. Hazard's chief objection to the issue of more charters was the fact that the subscriptions for the stock, being paid for wholly by stock notes, would add nothing whatever to the real capital of the state. The extent to which this habit had been carried by this time was remarkable. The charters usually provided that the capital should be "paid in" specie, but while these clauses were followed in the letter they were evaded in spirit. The specie paid in one day, and usually borrowed from some existing bank for the purpose, was withdrawn the next day and the notes of the stockholders substituted. At the payment of each successive installment the process was repeated. Such notes were called stock notes, because by general law and by terms of the charters the stock of a stockholder was liable for his obligations to the bank. Said Mr. Hazard: "The notes given for the stock and the stock pledged for the notes, cancel and annul each other; or rather, they are both nullities from the beginning. If ten individuals were to form themselves into a company for the purpose of getting up a bank with a capital of 50,000 dollars, and each member should give his note, and nothing else, to his company for his share of the stock, it is evident enough that here would not be one cent of real capital; and that if such a company should proceed to loan out its bills on interest, and put them into circulation, it would be guilty of a gross fraud upon the public. But this is precisely the case with banks, so far as their capitals are made up of stock notes. Yet they report the whole, real as well as fictitious, as so much capital 'actually paid in'. Is it not palpable that all the discounts and loans made by a bank, beyond the amount of its real funds kept on hand to answer for the paper it thus issues, are loans of mere paper, not representing any real capital, the bank receiving the indorsed notes of individuals, on interest, for its own notes without interest?" "It is said that the public loses nothing by this gain to a bank, since the paper passes and serves as money. The same might be said if a bank loaned its paper without any capital at all; the same might be said, if oak leaves, instead of paper, were used as a currency. That by far too great a portion of the capitals of the banks already granted consists of nothing better than such notes,

is to be inferred from their reports, by which it appears that nearly a million and a half of dollars is due to them from their stockholders. It is thus that the law pledging their stock for the debts due from stockholders to their banks is grossly abused". A comparison between the Providence Bank, organized on a specie basis when banks were trustees of the community's interests, the Bristol Bank, organized when stock notes were not very common, and the Mount Hope Bank, organized when stock notes were the whole capital, will illustrate the development of this custom. The figures are from the report of 1821:

	Date of Charter	Capital	Loans to		
			Directors	Stockholders	All others
Providence Bank	1791	$422,000	$10,300	$40,400	$349,300
Bristol Bank....	1800	120,000	57,400	32,700	46,000
Mt. Hope.....	1818	75,000	72,200		9,800

The Bristol banks, thus precariously organized on paper, had an unhappy and inglorious experience when, in 1826, the tax on the "paid up" capital of all banks was increased from 5 to 12 1-2 cents per $100. Five of them, the Eagle, the Freeman's, the Union, the Commercial and the Bristol, petitioned for relief from taxes on the ground that their capital had been "impaired" by "losses". The first three noted had been chartered in 1817 and 1818. The Eagle, chartered with $200,000 capital, had commenced business with $100,000, and in 1826 reduced it to $50,000.[1]

Another objection to the increase of capital was the political influence which it might wield. "Some of the banks," said Hazard, "already deny and threaten to resist, the authority of the legislature to regulate or tax them. They consider themselves as so many privileged and unaccountable corporations. And if we reflect upon the powers which have been granted to them, the amount of debts due them, the number and description of their debtors, and the influence they derive from that source, and especially, if we consider the numbers interested in those corporations throughout the state, and even in this general assembly—we shall not feel disposed to make light of their pretensions". The effects of such political influences had already been felt in the liberal provisions of the charters and the absence of effective legislative control. Mr. Hazard claimed that the clauses of the laws relating to the issues of circulation and the amount of loans had no real restraining force. A bank could first loan its whole capital; it could issue notes for as much more and loan them; it could further make loans for the amount of its deposits; if discounts were left on deposit

[1]American, June, 1826. Reference to the table at the end of the chapter will show the increase in obligations of directors and stockholders and the amounts loaned on bank stock immediately after a large number of charters had been issued.

it could make loans with them. The fact here criticised may be put more briefly in the statement that the laws provided for no reserves whatever. As to the indiscriminate extension of such powers he said: "The early banks were instituted by capitalists. Since that time those who have sought after banks have generally been those who themselves were in want of capital". "It is probable that out of a multitude of bank managers there will be some unfit for such a trust."

It was reasoned by the advocates of the charters that the granting of them would stimulate business and thus increase capital. Hazard replied, "The doctrine that a definite amount of money is required for the purpose of business applies to the amount in value, not in quantity"; that capital could only increase in natural ways; that the amount of specie in the community was determined by the business of the community in its relation to other communities, and not at all by the banking capital; that to increase the banking capital would simply divide the existing real money (specie) among a greater number of banks, unless the excessive issues of bills made redemptions impossible, reduced the state to a paper standard and drove all real money from its borders.

But the evils which had resulted from the scramble for the flesh pots of fictitious banking fell hardest upon the members of the community who thus apparently had the means of easy borrowing brought to their doorsteps and under the speculative frenzy of the day fell victims to their seeming benefactors. This fact was due both to the inflation theory of banking and to the abuse of the bank process power. It was regretted by all, even by the banks themselves, that the power was ever originated. Its severe pressure upon individuals was the least of its ills. Mr. Hazard, with a leaning toward rhetorical effect rather than conservative statement, thus describes its effects. It drew, said he, "into the banks all the property of insolvent debtors, to the exclusion, nearly, of all individual creditors". It led "banks to extend their loans to many" whose ruin was "the inevitable consequence". Between 1816 and 1826 the debts due to the banks had increased from $2,500,000 to $6,970,000. "We cannot tell what portion of the ratable property is owned by stockholders, or members of the banking companies; but we know that nearly all the wealthy men in the State are large stockholders; and if we were to deduct, from the general estimate, their portions of the ratable property in the state, and from the amount of debts due to the banks, such part as is due from stockholders, the result would present us with a frightful account of the situation of those who own the residue of the ratable property and owe the rest of the debts to the banks".

This able argument had only a temporary effect. In 1827 the legislative mill began to grind again, and though the product was only one

charter in that year, by 1837 twenty-two charters had been granted for capital of $2,625,000, and authority to increase to $6,850,000. Since 1791 the state had chartered sixty-eight banks with initial capital of $4,610,000, and authorized capital of $11,400,000. Six had ceased business, leaving sixty-two, with nominal paid up capital of $9,837,200.

The excessive capital stock of Rhode Island finds some explanation in the abuses just noted. The truth is that the banks here, as in Massachusetts and elsewhere, had no such an amount of capital permanently paid in as the reports would indicate. The Second Bank of the United States, with an assumed capital of $35,000,000, was known to have started in business with not over $5,000,000 in real money. The stock jobbing countenanced by it was universal at the time. Between 1800 and 1860 it is doubtful if more than one-third, and perhaps not one-fifth, of the nominal capital of the banks in Rhode Island was paid for in any other way than by stock notes. Such real working capital as the banks had was composed of deposits and specie and other accumulated earnings. The last item alone, owing to the enormous earnings and small losses, would account for nearly the whole of the existing bank capital at any given period.

During all this period the total amount of specie held by the banks in the state had at no time exceeded $660,000, and had not averaged above $350,000. This amount of metallic stock had done duty, if we may credit the reports, in paying the specie installments of bank capital of over $21,000,000.

The close association of the manufacturing and banking interests subjected banks to severe strains at times, but their limited demand liabilities in the form of circulation and deposits were elements of strength, especially as the deposits were largely made up of discounts, and in so far were a part of the banks' contingent assets. The crisis of 1829 was marked by the failure of some of the state's leading manufacturers; among them were the Wilkinsons of Pawtucket, whose family and business associations with the Slaters had been instrumental in bringing the cotton industry to its then condition of perfection and acknowledged supremacy. The Farmers and Mechanics Bank of Pawtucket was involved in the disaster. An examination of it in October, 1829, showed that, with capital of $200,000, deposits of $14,700, and circulation of $16,900, it had loaned $326,500. Its total quick assets consisted of $1,800, deposited in other banks, $186 of overdrafts, and $22.03 in cash. In order to make loans to carry its customers it had borrowed $93,556 from banks, and when its credit was exhausted, had placed in the hands of a third party for negotiation for its benefit $4,000 cashier's checks. It had furthered the interests of its customers by endorsing and negotiating $45,000 of their paper. Driven to extremes, its cashier had endorsed $22,000 of the Wilkin-

sons' paper "under circumstances which, he did not conceive, rendered the bank liable". It thus had liabilities of $399,400 and assets above noted, plus its loans and discounts; and of these the examiners reported "that nearly every one of its debtors had failed and put their property in the hands of assignees".[1] Enough was saved from the wreck to pay its creditors, except the stockholders, and in 1835 it was reorganized. From its ashes, with its name appropriately changed to the Phenix Bank of Providence, rose an institution which still maintains a prosperous existence.[2]

The banks did not altogether escape the inflation tendencies of the early 30's, as is shown by the rapid increase in their circulation from $929,500 in 1830 to $1,864,100 in 1837. Pending the final decision by the supreme court of the United States as to the constitutionality of the issue of circulating notes by banks incorporated by the states, the charter of the Globe Bank, issued in 1833, was the first to contain a specific grant of the power to issue "bills of credit".[3] And although the United States court decided that the note issues of state banks were not bills of credit, local charters continued to class them as such and to confer the power to issue them.

Despite this apparent association of the banks with the inflation movement, the real origin of many of them can be traced to the corporate influences of the times. The Blackstone Canal was not a financial success. In 1831 the Blackstone Canal Bank was chartered and authorized to invest $150,000 of its funds in the stock of the canal company. The New York and Stonington Railroad was chartered in 1832, and the Globe Bank, despite its hitherto unique clause as to bills of credit, was chartered in the next year, partly as its fiscal agent. Its large issues of circulating notes, which exceeded those of any other bank at the time, reaching, in 1835, $97,953, are explained by the pay roll needs of that and other corporations.

The business disturbances which arose in connection with Jackson's controversy with the United States Bank were keenly felt in Rhode Island, because the success of its industries was so dependent on extensive credit. In the latter part of 1833 Secretary Taney made an agreement with the Arcade Bank of Providence to receive all the United

[1]Report, Oct., 1829.

[2]It is not a little singular that the Albion Company and the Valley Falls Company, both of which were involved in the failure of the Wilkinsons and of the Farmers and Mechanics Bank in 1829, were, in 1900, under the control of Jonathan and James H. Chace, the former of whom was also president of the Phenix Bank.

[3]The case of Briscoe vs. Bank of Commonwealth of Kentucky, first tried in 1832, was decided by Jackson's packed supreme court in January, 1837. The note issues of banks were declared not to be bills of credit within the meaning of the constitution of United States. 11 Peters, 257.

States deposits. It was to accept at par all the notes of neighboring banks which were specie paying, transfer the deposits to any other part of the country on demand and without charge, and "perform all of the services rendered by the United States Bank". Whenever the treasurer requested, or whenever its deposits exceeded 50 per cent. of its paid up capital, without his request, it was to furnish collateral security suitable to him, to cover such excess deposit.[1] This business was profitable, for the accumulating receipts of the government left large balances in the banks. In November, 1836, the Arcade Bank, with $400,000 capital and only $32,000 general deposits, had $269,000 of the United States funds, and the Rhode Island Union Bank of Newport had $150,000 of like deposits, although its individual deposits were only $16,000. The banks in Rhode Island did not, as was elsewhere the case, use these deposits as a basis of circulation.

The United States Bank, in October, 1833, had a nominal local capital of $800,000 and local loans and discounts of $591,700. When Jackson began to remove the United States deposits from it, the bank began as a counter stroke a sharp contraction of its loans. In January, 1836, they had been reduced to $2,200, but the Providence Bank had stepped into the breach and bought $474,000 of them.[2] This interesting period of about two years is rich in protests sent by the leaders in local politics and industry to congress. A memorial from Providence, early in 1834, with 1,143 signatures, recited that "within a short period of four months we have rapidly passed from a state of measurable comfort and security to one of general distress. A panic pervades every portion of the country. Present distrust and a foreboding of the future unnerve and discourage our most enterprising citizens". They complained of a stagnation of business in all forms and a universal decline in value of all descriptions of property.

One month previous money had been abundant at 6 per cent., but increased pressure had driven in the circulation of banks and withdrawn their accustomed deposits, and they had taken from them their means of granting accommodation by discounts of notes and bills of exchange. Hence "the rate of interest has advanced to 9, 12, and 18 per cent. It is now difficult, nay, almost impossible, to negotiate domestic exchange or to obtain money on the best mercantile paper". Providence county men, 3,500 in number, protested against the "experiments" which had been made with the currency. There were also some documents endorsing Jackson. Nearly 8,900 signatures of men

[1]Similar arrangements were subsequently made with the Bristol Bank of Bristol and the Newport Bank of Newport. When by act of June 23, 1836, the deposits in United States depositories were limited to three-fourths of their capital, the Rhode Island Union of Newport was added to the list.

[2]Report, 1836.

condemning the President's action were forwarded to congress, while his supporters mustered fewer than 1,800.[1]

How much of the complaint was real and how much was political may be gleaned by comparing the statements of stringency and contraction, caused by Jackson's attitude, with the facts that in Rhode Island, from October, 1833, to October, 1835, banking capital increased over $1,300,000, circulation increased $380,000, deposits increased $240,000, specie reserves increased $163,000, and loans increased about $1,900,000. The local contraction of the United States Bank was more than offset by the local expansion of state banks.

When by the suspension of specie payments in 1837 the banks ceased *de facto* to be United States depositories, the Rhode Island Union paid to the government $38,586.39—the whole of its public deposits; the Arcade paid $93,999.58—all but $10 of its public deposits.[2] In June, 1836, was passed the act by which about $30,000,000 of the United States surplus was distributed among the states. The portion of Rhode Island was $386,611, and it was at first loaned to the banks by the state at five per cent. interest. It was distributed among forty-nine of the strongest institutions, seemingly according to the amount of their paid up capital.

The receipt by the state of this money was particularly agreeable, because it was largely the proceeds of sales of public lands. Her representative, David Howell, had argued strongly during the debates on the grant of an impost to the continental congress, that the Revolutionary debts should be paid for by the sales of the western lands. Thus after over fifty years it almost seemed that his claim had been acquiesced in. The state, therefore, in January, 1837, directed its senators to favor expunging the resolution of the United States senate condemning Jackson's action with regard to the public revenues; but the assembly took occasion to say that in so directing its senators it was "desirous of maintaining and reasserting the right to instruct the senators of this state in the senate of the United States".

In 1836, as the result of an investigation into the methods of banking, with special reference to the rates of interest, was passed a remarkable supervisory and restrictive law. The stringent recommendations of the committee of 1826 had failed of passage. Meanwhile, however, in one or two charters some important clauses had been inserted. The charter of the Farmer's and Manufacturer's Bank of 1827, besides providing for a stockholder's liability similar to that of the Union Bank, was by its terms subject to "all general acts applying to banks and to any acts in amendment of or repeal thereof, or in any way affecting the same". The charter of the High Street Bank con-

[1]Executive Docs. U. S. 1833-34.

[2]Executive Documents United States, 1837–1838 passim.

tained the same provision. These clauses were the result of a contest over the right of the state to tax the banks, a right which was confirmed to it by the United States Supreme Court.[1] The charter of the West Greenwich Farmers Bank (1833) was the first to provide the unlimited personal liability of stockholders. Nearly all subsequent charters contained this provision, as well as the specific clause subjecting them to such taxes as the state might impose.

The committee of investigation in 1836 then had found itself supported by a strong undercurrent of sentiment unfavorable to banks, because of their resistance to taxes, and a legislature disposed to insist on curtailing their special privileges and immunities. The notion was still current that the chief function of banks was local accommodations. Capital was not then mobile, as it now is, and the practice of the Mt. Vernon Bank of Foster and the Smithfield Lime Rock Bank in loaning a very large portion of their assets to Providence was thought to be an injustice to the respective towns in which they were situated; while the practice of the Newport Exchange Bank in loaning one-half its funds in New York subjected it to severe censure. The legal rate of interest had been fixed at 6 per cent. during the Revolutionary period. It had been openly violated by all since the period of the second war with Great Britain and even before, a practice the prevention of which had been one of the objects of the establishment of the first banks,[2] and now became an object of public thought. Besides the wild speculative tendencies of the period and the desire to get rich easily by borrowing money at low rates on western prairie lands at house lot valuations, the Jacksonian democracy, which had perhaps as little common business sense as any wave of political sentiment that has possessed the country, expressed itself here in an outcry against usury. It is significant that two of the members of the committee on banking in 1836 were S. Y. Atwell and T. W. Dorr, the one a follower in, the other a leader of, the forces against the privileges of capitalism and property in Rhode Island. It was characteristic, both of them and of the period, that they should fail to distinguish between that proper degree of supervision of banking, which would protect the interests of the innocent from fraud, and that supervision which unwarrantably interferes with the conscious and voluntary relations between banks and individuals and in which they alone are affected. With regard to the question of usury, which was the chief subject of the investigation, the committee acknowledged that no word of complaint had been made to them, either by the banks or their customers, nor had they sought any corrective legislation. Indeed, higher rates of interest and exchange had been willingly offered than the banks had

[1]Providence Bank vs. Billings & Pitman, 4 Peters, 515.

[2]The charter of the Providence Bank contained the following: "By discount rendering easy and expeditious the anticipation of funds on legal interest".

charged. The significance of these facts seems to have been entirely unnoticed. As might have been expected, the report in some respects lacked judicial moderation. The commercial banking interest had hitherto been inactive in politics.[1] It possessed about one-sixth of the entire wealth of the state. It soon became an active participant in political doings. Its power will be noted in the less stringent laws which soon were enacted.

The report first indicated the unreliable nature of bank returns which were made on a fixed day in each year. In preparation for their return the banks had annually curtailed their loans, thus causing a forced stringency in the local money market. The official return of October, 1835, and the statement collated by the committee at visits unexpected to the banks, showed as follows:

	Official Return.	At Visitation.
Deposits	$1,472,600	$1,812,600
Due banks and others	179,800	586,700
Circulation	1,160,800	1,294,300
Total demand liabilities	$2,813,200	$3,693,600
Increase		880,400
Specie	486,600	197,500
Bank notes	319,900	322,200
Due from banks	180,100	219,200
Total quick assets	986,600	738,900
Decrease	$ 247,700	
Total difference		$1,128,100

The proportion of quick assets to demand liabilities had declined from over one-third at the time of the official returns to one-fifth at the time of the unexpected visitation.

The devices which had been adopted by the banks to get more than the legal rates of interest had been almost universal, among Providence banks the single exception being the Manufacturers Bank. They sometimes favored their own customers, but usually the rates varied with "the avarice of the lender" and "the necessity of the borrower". The custom had its undoubted origin in the cost of collection of drafts, which, in this manufacturing center, constituted a large portion of the discounts. Rates of exchange on them were normally one-fourth per

[1]It is not clear that they took any part in the contest in 1831 between James Fenner and Lemuel H. Arnold for the governorship. The latter, the candidate of the Jacksonian democracy, was charged by his opponents with intending to abolish the bank tax and impose all taxes on land. To a voting clientage composed of freeholders who had not paid any taxes since 1824 such a proposition was a veritable bombshell. Arnold denied the charge, and a spirited correspondence was indulged in between the rival candidates. Arnold was successful in the election.

cent. on Boston and New York, rising to two per cent. on the west and south. The banks charged from one to two per cent. on four months' acceptances on New York in addition to the rate of interest. The total rate of interest, therefore, varied from nine to twelve per cent.

In discounting notes the most ingenious methods were adopted. Discounting was done in various ways. The borrower sometimes dated his note back thirty days and discount was calculated from the date of the note; at times he would agree to leave the proceeds on deposit for thirty days; sometimes he was paid by a check drawn on some other town and exchange was charged on the check; sometimes he received the proceeds of his discount in current money at par, and when he passed it back over the counter for deposit it was received at one-quarter per cent. to one-half per cent. discount. Perhaps the most common device was to make a note payable at some other bank. It then became a draft and exchange was charged on it. When by the law enacted at this time exchange was declared illegal on notes payable in the same town, a bank in the suburbs was selected and notes were made payable there. The Elmwood Bank of Cranston was used in this way for a decade before the Rebellion. It was the daily custom of the cashier of this bank to come down town and remain in the office of the notary for an hour each afternoon, in order that notes payable at his bank "out of town" could be presented conveniently.

The law passed in June, 1836, provided that no bank should begin business until fifty per cent. of its capital had been actually paid in and such payment certified to by the bank commissioners. Its whole capital must be paid in within one year.

The capital stock of a bank could not be reduced by division without permission of the general assembly; if it became impaired to the extent of one-fourth part, the deficiency must be made good within one year.

Interest above six per cent. was forbidden, and exchange above one-fourth per cent. for New England and New York city, and increasing to two per cent. in places south of South Carolina and west of Ohio, was also prohibited.

No bank could be moved and no branch established.

Violations of any of the above provisions worked forfeiture of the charter, and a violation of the interest laws was also punishable with a fine of $500 for each offense.

No one could be a director unless he was a citizen and resident of the state.

No bank could be chartered with less than $50,000 capital and every bank must be incorporated by its actual stockholders. The subscriptions to the stock were to be supervised by the bank commissioners, they giving preference to the residents of the town where the bank was located.

Every director, president and cashier was required to take oath to observe the interest laws under penalty of $1,000.

The bank process act was repealed and all debts were recoverable by the usual legal methods.

Banks were required to return a detailed account of their condition on request of the bank commissioners, and if they delayed for thirty days their charter was forfeited.

Three commissioners were to be elected by the general assembly, who had power to summon officers under oath, and to visit and examine banks, and in general they were clothed with the "visitatorial power of the general assembly" to ascertain the state and condition of banks. If "in their opinion" any bank had forfeited its charter or was "so managing its concerns that the public are in danger of being defrauded thereby", they could complain to the supreme court, and the latter must forthwith issue citation to the bank officers to show cause why injunction should not issue against them.

In the same year, although the tax on the increase of capital, which had been fixed at two and one-half per cent. in 1831 was reduced to two per cent. and the bonus imposed in 1831 was removed, the annual tax on capital stock was increased from twelve and one-half cents to twenty-five cents per $100.

Many officers of the banks failed to take the oath required in regard to bank interest, and in October the state treasurer was authorized to enforce the penalty. In January, 1837, directors were prohibited from serving on more than one board, and one-third of the stockholders were authorized to call a stockholders' meeting.

The members of the investigating committee of 1836 were elected bank commissioners and zealously entered upon their duties. They reported to the legislature in January, 1837, the results of their inquiries. It appeared that directors had already begun to evade the law by borrowing money of their banks and loaning it at higher than the lawful rates of interest. The directors of the Merchants Bank were the most conspicuous offenders against the spirit of the law. In discussing the proportion of the loans made to directors and others, they said that it was originally intended that the public should have the benefit of banking institutions. "How much of the blame that belongs to an almost uniform departure from the original design of banks in this respect is justly attributable to those who govern them, and how much to circumstances that the directors cannot well control, it is difficult to decide."

A director could rarely obtain accommodations elsewhere than at his own bank, and must, therefore, depend on it. "If his wants are large, there will be little left for others outside the board". "And so in many instances banks have become to a considerable extent mere

engines to supply the directors with money". At two of the banks visited one-half of the discounts, and at another three-fifths of the discounts, were for the accommodation of the directors and co-partnerships of which they were members.

Such abuses could not be reached by law and nothing was done in regard to them, but from this time we can trace, side by side with the relations of banks to corporations, the development of the bank as a personal machine.

In June of the same year bank officers were required to allow stockholders access to the account books on penalty of $50 (this did not apply to individual accounts), and at the same time the consent of three directors was required on all discounts.

The commissioners found many unsound institutions. They caught the Scituate Bank in the very act of fraud.[1] They entered a complaint against a number of other banks and had begun legal proceedings against the Rhode Island Central Bank of East Greenwich. But in October, 1837, another bank act was passed. It was partly the result of the zealous activity of the commissioners in performing the duties of espionage which had been imposed upon them.

It provided that discounts should be limited to the amount of capital stock paid in plus the deposits, plus the amounts due from banks bearing interest (*i. e.*, borrowing of other banks and individuals), plus an amount determined by a percentage on their capital stock graduated according to its amount from 80 per cent. for banks having $50,000 capital to 30 per cent. for banks having over $400,000 capital.

At the same time the amount of circulation was restricted to certain percentages of the amount of capital as follows:

Capital of	$50,000			75	per cent. in bills
" over	50,000	and under	$120,00,	65	" " " "
	120,000	and under	200,000,	40	" " " "
	200,000	and under	300,000,	30	" " " "
	300,000	and under	400,000,	25	" " " "
	400,000	and under	500,000,	20	" " " "

Bill holders were given priority of claim on all the assets of the bank.

The most important clause of the act related to the method of interpretation which the bank commissioners should adopt when deciding

[1]It had reported in October, 1835, capital, $15,660; due from directors, $13,100; circulation, $334; bills of other banks $425, and specie $10. The commissioners discovered in 1836 that it had been sold to out-of-state parties who had given stock notes to the bank for $49,361, while it held stock notes of residents for only $2,047. Its property had been secretly removed. New plates had been prepared and $43,000 of bills had been printed, of which $36,328 were found in the bank. After liquidation the name of the bank was changed to the Hamilton and it maintained a precarious existence until 1851.

as to whether the acts of a bank endangered public interests, and so brought it within the scope of summary injunction. With reference to the clauses as to circulation and discounts, it was provided that no bank conforming to them "should be declared to be conducting its business in such a way that the public was likely to be defrauded thereby".[1]

The commissioners, in May, 1838, explained that they had withdrawn their suit against the R. I. Central Bank as, under the above act, violations of the usury laws were no longer an actionable offense. A point upon which they did not lay stress was that, while in the exercise of their functions, they had included the stockholders among those whose interests they were to serve; the law practically excluded stockholders, the depositors and banks and individuals of whom money had been borrowed.[2]

Whether the activity of Mr. Dorr and the ill-favor with which his opinions soon came to be viewed was the cause or not, he did not long remain a member of the commission, and in the midst of the conservative reaction of 1842, in June, the bank commissioners act was repealed. Semi-annual returns of banks were ordered to be made to the general assembly. In January, 1843, the secretary of state was authorized to designate the day on which returns should be made.

Rhode Island banks suffered but little comparatively speaking during the depression of 1837. When, owing to the fall in the price of cotton, the southern banks suspended specie payments, the manufacturers sustained heavy losses, but their high profits for the few previous years enabled them to tide over the period. With the advice and consent of the bank commissioners, the banks suspended on May 11—the day after the suspension in New York. Steps were at once taken to protect their bill holders. The banks went into the open market and bought gold, so that while on the day of suspension they hand only $268,800 of specie, one month later they had $350,000. It seems at first to have been their policy not to increase their loans, and during this first month of suspension less than $10,000 was added to their outstanding lines. In

[1]"Unless a case of direct and intentional fraud should be suspected or unless the bank should have loaned its money to persons suspected of being insolvent to such an amount as to prevent it paying its liabilities in full, or should sell its specie or otherwise dispose of it than for the redemption of its bills at par."

[2]Anent the East Greenwich bank it may be noted that while in April, 1839, it reported capital of $136,600, profits, $9,900, and an otherwise sound condition; in October of the same year it was found to have sustained losses destroying its surplus and impairing its capital to the extent of over $54,000. The assembly allowed it to continue and in 1854 it disappeared entirely.

May the general assembly authorized them to issue post notes, running for one year, to the extent of one-fourth their capital, and it was hoped that this would relieve the demands on them. In June, however, the legislature required them to pay five per cent. on the deposits of their own bills, while the bank commissioners advised that they receive their own bills from each other, paying interest on their debit balances. Their deposits on interest increased from $320,700 to $496,200 during the first month and in a few months increased $300,000 more. In a brief period their obligations to banks also increased $213,000. They found it impossible to retain their specie, and they adopted a policy of leniency with their debtors. They began to increase both loans and circulation. By October they had added over $400,000 to their circulation and over $875,000 to their loans and discounts. At the same time they fell heavily in debt to the Suffolk Bank and sent over $100,000 in gold to Boston. The tide then turned and within six months they had nearly doubled their specie, had decreased their loans by about $600,000, and although they had increased their circulation $330,000, they were in as good a position as other banks to resume. Resumption took place in August, 1838. The rate of interest on their bills deposited with them in excess of $1,000 by one depositor was reduced to three per cent. by the general assembly in October, 1837, and it thus became possible for them to make profit on such issues. A rapid increase of over fifty per cent. in circulation occurred within the first year following suspension. It is interesting to note that their deposits on interest between May, 1837, and May, 1838, increased $770,000, almost the same as the amount of increase in circulation, which was $755,000. The weekly reports, which the commissioners required during the period of suspension, were printed in the public press. In January, 1841, Rhode Island joined other states in a memorial against the sub-treasury system and in favor of the establishment of a national bank.[1]

Two new features in banking marked the early years of this period. One was the beginnings of the accumulation of a surplus account by the banks about 1815, all earnings having been previously paid out in dividends. Another was the establishment of the first savings institution, chartered as the Savings Bank of Newport in June, 1819.

Its object was "to provide a safe and profitable mode of enabling industrious persons of all descriptions to invest such parts of their earnings or property as they can conveniently spare". Deposits as low as $1 were received, but interest was allowed only on deposits of $5 and above. Dividends were to be paid semi-annually at the rate of five per cent., but no interest was to be allowed on sums drawn between dividend periods. All surplus earnings were to be divided every three

[1]January session, 1841, pp. 66-67.

years pro rata among all depositors of over one year's standing. Money could be drawn only after a notice of one week or on specified quarterly days in January, April, July and October. No deposits were received from corporate bodies, and none over $100 from an individual at any one time, excepting seamen's wages. The directors could pay off in whole or in part the deposit of any individual which amounted to $1,000. The total deposits could not exceed $200,000.

In October of the same year a charter was granted to the Providence Institution for Savings. It was very similar in its provisions to that of the Newport Bank, but the earnings were to be divided semi-annually at a rate to be determined by its directors. Its limit of deposits was $300,000. The restrictions as to the amount of deposits have been removed, and in 1879, pending resumption, savings banks were allowed to require ninety days notice for the withdrawal of deposits. The statistical tables at the end of the chapter indicate the importance and number of savings banks.

THIRD PERIOD—1840-1865.

The period 1840-1865 contained no new phases of banking. There was a continuation and development of previous methods. Between June, 1836, and May, 1850, only two banks were incorporated and the charter of one of them was repealed before it went into operation.[1] Meanwhile both the amount of capital and the amount of circulation increased somewhat, while the loans and discounts increased in about the same degree. The noteworthy feature was the constantly decreasing amounts of specie held in proportion to the circulation, showing that with the increasing banking capital the real assets of the banks, together with a better understanding of credits, specie had ceased to play an important part as a basis of circulation and had become merely a reserve for it or rather a part of it. The amount loaned on stock notes as well as overdue paper will be seen in the tables as far as they were reported.

The new form of report required in 1843 set forth the largest amount due from any one borrower. The Providence Bank led in the list with $72,175 loaned to one person. The Washington Bank, which had been started in the interests of the farmers, had loaned $25,226 to one individual. The repeal of the bank commission act left banks to organize themselves. The charter of the People's Bank (1846), therefore, provided that the stockholders should not be allowed to dispose of their stock until the whole amount of it had been paid in. In 1849 bank returns were required only annually, and though the

[1]The North Kingston Exchange. It was discovered that the bank with only $50,000 capital, and that not paid in, had already to issue $42,200 bills and the cashier had signed $26,800 more, making $69,000 in all.

amount of bills under $5 was to be reported, many failed to comply with the provision.

In the year 1850 there was renewed activity in bank charters, and by the end of 1856 forty-seven had been granted by the legislature. Four of them did not become operative. The capitals of these banks varied from $50,000 to $500,000. The charter of the Bank of Commerce (1851) was the first to set its maximum capital at $1,000,000. Seventeen of them, with capital of $3,050,000, were to be located in Providence.

The period was everywhere one of marked industrial development, but in Rhode Island its particular feature was an extraordinary corporate activity. The population of the state increased over seventy per cent. between 1840 and 1860, and much of the increase consisted of a foreign element, unaccustomed to our institutions and to banking. Most of such got their livelihood in the factories, and large amounts of circulation were issued for the pay roll purposes. In 1854 of the circulation of $5,000,000, about $1,500,000 was of denominations under $5. Very few of the banks speculated in note issues by sending notes out of the state. The worst offenders in this way were the Arcade, the Bank of the Republic, and the Mt. Vernon of Providence, the Commercial of East Greenwich, and the Farmers of Wickford. But while the increased circulation herein found its partial explanation, the discounts, which increased from $14,300,000 in 1850 to $28,700,000 in 1856, illustrated the local corporate needs. The relation of the banks and the newly forming corporations was in some respects even more marked than at any other period. A limited co-partnership act had been passed in 1837, and the first general corporation act of the state bears date of 1847. Seventeen insurance companies secured charters within a decade immediately following the corporation act. From this time date the Hartford, Providence and Fishkill Railroad Company, the Providence and Worcester Railroad Company, the Providence, Warren and Bristol Railroad Company, and the Providence and Springfield Railroad Railway Company (first incorporated as Woonasquatucket Railroad Co.). In manufacturing, steam power was supplanting water and the mills all over the state were enlarging. Many of them were changing from private companies to corporations.

Many of the banks were organized for the distinct purpose of taking over corporate obligations. Some banks themselves became stockholders or incorporators of other corporations. The Blackstone Canal, the American and the Phenix banks were among the corporators of the What Cheer Company. The association of the Merchants Insurance Company and the Bank of Commerce has already been noted. The Spragues, the Knights, the Smiths, the largest manufacturers of the state, had controlling interests in a number of the banks. Such a

movement had its excesses, and these were exemplified in the charter of the Atlantic and Mediterranean Banking and Navigation Company of Block Island, with capital of $2,000,000. It was to engage in banking, build and own ships and undertake a world-wide commerce. It did not get beyond the stage of incorporation.

The movement was also attended with numerous banking laws. The first bank chartered in 1850, that of the State Bank, provided for organization by three commissioners appointed by the governor. The stock was to be apportioned "as near as may be to the amount subscribed by each person who shall in their opinion have the ability and disposition to make a bona fide investment". Most subsequent charters had a like provision. In June, 1853, the issue of fractional bills was prohibited. Beginning in 1854 acts of incorporation were held for consideration until the session following their presentation. Meanwhile in 1849 the tax on banks had been increased from twenty-five to thirty cents per $100 of capital stock, and reserved profits. In 1855 the rate was raised to thirty-three cents.

The first act of the January session of the legislature in 1857 revived the bank commissioners act of 1836 with slight modifications. Like its prototype, the new act left the whole question of safe banking to the discretion of the commissioners. On the request of three officers, stockholders or creditors, making a statement under oath of their interest, they were to examine a bank.

By an act of February, 1858, the reports of banks were to be made to the state auditor and the law still maintains. The bank commissioners in January, 1858, reported that they had enjoined the Tiverton Bank, the Fall River Bank, the Farmers Bank of Wickford, the Bank of South County of Wakefield, the Hopkinton Bank of Westerly, and the R. I. Central Bank of East Greenwich. The first two had gotten into the hands of outside owners, the capital was made of bogus notes and other securities equally unsatisfactory. The Farmers Bank had bills in circulation much in excess of their recorded amount and the bills of both banks seemed likely to be a total loss. The banks of South County and Hopkinton, in an endeavor to make large dividends, had speculated in weak western land securities, and were then totally unable to redeem their largely inflated circulation, though the commissioners hoped to do so in the course of time. The aggregate capital of these banks was $886,311.86, their circulation was $553,500, their specie holdings were $9,150.

These conditions were partly due to the suspension of specie payments by most of the banks of Rhode Island on September 28, 1857. The banks already weak added heavily to their circulation. The Hopkinton Bank, with a capital of $50,000, had issued $49,223 in bills, the R. I. Central, with $496,000 capital, had $386,700 outstanding, and

specie of only $7.86. The banks of Providence, thirty-nine in number, had capital $14,489,000, circulation $2,595,900, and specie $211,500. The country banks, fifty-nine in number, had capital $6,367,700, circulation $2,748,700, and specie $118,200. This was in May, 1857.

The banks were thus unprepared for the heavy demands made on them during the summer. The press had been for months warning them of their excessive issue of bills. The bond deposit system of New York maintained its bills in high standing while the mismanagement of the banks above mentioned discredited all Rhode Island bills. The state as a whole thus got the reputation of these institutions, which scattered "among people of other states a circulation which our own people will not take". The New York Herald asserted that Rhode Island was "up to its eyes" in railroad securities, taken for circulation to be distributed in the western states. Reckoning the loans on such securities at the par value of the collateral, however, it appeared that Rhode Island banks held $651,000 of them. The real amount, allowing for the margin, was probably about $400,000—a comparatively small sum when compared with the total loans of $29,000,000.

On September 21st the bankers met and recommended a slight increase in loans. The situation was becoming tense. Two weeks had passed without the sale of a single yard of print cloth. Said the Journal on September 28th, "There never before were two such weeks as closed upon the business of Providence last Saturday. Money continues at unmitigated rates, although the demand slackens under the impossibility of obtaining discounts. There is hardly any cotton in the market. The manufacturers are working down their stocks with no disposition to renew them under present circumstances. It is impossible longer to raise money to pay labor and a dreary winter is before us". On December 24th there were 502,291 spindles and 9,661 hands idle in the state. Of the 216,824 spindles and 4,070 hands at work most of them were on from one-half to three-quarters time. Many attributed the severe suffering in Rhode Island to the inferiority of corporate management as compared with personal management. The difference was that between agency and ownership, and doubtless in the then newness of the former system, there was much truth in such assertions.

There had been much opposition to suspending, and when on September 28th a meeting was called for the purpose, six of the Providence banks were absent. They were the Merchants, the Providence, the Bank of Commerce, the Union, the What Cheer and the Lime Rock. Most of them were among the strongest of the local institutions. Thirty-three banks met and of those present twenty-one voted for suspension. The other banks were forced to follow soon afterwards.

Providence was a creditor city in the south and west, but the suspension in Baltimore and Philadelphia reduced its available resources, while it owed New York about as much as New York owed it. New York contracted its loans at the rate of $4,000,000 a week. The failures thus caused involved Providence merchants, and Providence banks extended accommodations as far as possible to New York houses, when they could not get loans at home. Despite the large sums due from the south and west, these discounts turned exchange against Providence. On September 30th rates as high as twenty-four per cent. were offered by borrowers and refused. On October 7th it was estimated that Providence banks had $8,500,000 due to them and maturing from time to time at specie paying points, and a net circulation in the hands of the public of $1,100,000. It was thought, therefore, that their bills would not fall below one per cent. discount, but the suspension of the New York banks on October 15th ended the hope. Local banks contracted their loans $1,500,000 in less than two months, and by December the reduction exceeded $3,000,000.

Precisely the same expedients were attempted in 1857 as had been adopted in 1837, but the lack of harmony among the banks made it impossible to enforce them. Between the time of suspension of the Providence and the New York banks many of the former which had deposits in New York sold specie checks on such deposits at a good premium.

When the worst of the crisis was over the causes for it were sought, and among those peculiar to local banks that most condemned was the long period of credit. Print cloths were sold on eighteen months' credit. Eight, ten and twelve months' discounts were common, and those under four months were rare. A tacit approval of a six months' period for credits as a maximum was for a time observed. Others found the cause in the association of banks of discounts with banks issuing bills. A meeting at the Providence Board of Trade advocated state issues of bills, to be loaned to the banks on deposit of two-thirds public securities and one-third bullion.[1]

In January, 1858, Rhode Island banks resumed specie payment. At a session of the legislature in the same month some new banking laws were passed. The whole amount of debts that a bank might owe exclusive of deposits was restricted to sixty-five per cent. of its capital. Circulation was also limited to sixty-five per cent. of the capital stock. Neither of these restrictions affected the then solvent banks.

In 1860 the only cloud on the horizon was that of secession. Prosperity had quickly returned, but was almost as quickly dissipated by the outbreak of the war. During the first year of conflict Providence banks took $460,000 of government obligations. In December, 1861,

[1]Providence Journal, Sept. to Dec., 1857, passim.

they followed the New York banks and suspended specie payment. The enabling act, passed March 7th, 1865, prescribed the process of transfer of the state banks from the state system into the national bank system. The act provided for the redemption of their circulation by periods of six months, and they paid a tax of one-half per cent. on all that remained outstanding until the amount was reduced to $8,000 for each bank, when the tax was to cease. Soon afterward a tax of ten per cent. was imposed by national law on all state bank issues after July 1, 1866. In November of 1865, only fourteen of the eighty-six state banks remained. In January, 1867, the local taxes on the capital stock of state banks were repealed. In 1872 the liability of stockholders was limited to double the par value of the stock held. The state since 1791 had issued 117 charters for new banks with an authorized capital of $34,750,000.

FOURTH PERIOD—1865-1900.

This period has certain distinguishing marks through which it stands in sharp contrast to all previous periods. Its two most marked features are the rise and decadence of the national banking system, in so far as it had for its aim banking by means of circulation based on government securities, and the rise and success of the state trust company system, the business of which has been confined almost wholly to banking by means of deposits. A third feature common to both of these systems, but much more clearly marked in the latter than in the former, is the relatively slight importance which capital stock plays in the one and is destined to play in the other, and the correspondingly increased importance which surplus funds must play in both. As in the former period, the origin of these phenomena is to be found both in the nature of banking itself and in the adaptation of it to its changing economic environment. The perspective of these facts perhaps is too short for final conclusions to be reached, and our discussion too limited to permit of a detailed presentation of all the elements which have contributed to the results. The most salient points group themselves naturally around the three topics of circulation, deposits and capital, and are especially concerned with the local industrial conditions which have affected the shifting of the basis of the banking business from capital to deposits.

The amount of circulation of the eighty-six state banks in 1864 was about $7,000,000. This circulation was supplanted by that issued by the national banks. The latter, because of restrictions upon its issue, had less earning power than an equal amount of state bank currency, but the state currency was limited to sixty-five per cent. of the capital stock of the banks, while the national currency was limited to ninety per cent. of the amount of United States bonds deposited as a basis for it. The national currency had an additional merit in that its

redemption was not a first charge upon the general assets of the banks, but was assumed by the government. The lesser degree of profitableness which it offered was thus offset by a possible larger issue of it and an absence of liability for its redemption. The demand liabilities of the banks were thus greatly reduced. Under the combined influence of the suspension of specie payments in 1861, the resulting weakness of the Suffolk System of redemptions and the rapid depreciation of all paper currency, Rhode Island banks became so far inflationists as to more than double their circulation issues between 1861 and 1864. The additional emphasis given to inflation by the character of the national bank currency just noted, found here as elsewhere a ready response. The national banks by 1870 had issued over $12,000,000 of bank notes.

The issue of these notes had an effect upon the amount of available local capital the reverse of that which had resulted from all previous large issues of circulation, because under the national banking system they were offset by the amount of local capital necessarily loaned to the government in the purchase of government bonds. Inasmuch as the bonds were usually at a premium and only ninety per cent. of their par value could be issued in the form of notes, there was even less capital left for local purposes with circulation than without it.[1] Because of this fact local banking funds in 1870 were about $8,000,000 less than they had been in 1864. The effect of this contraction in a community, the business of which was so dependent on credit, was marked. It would have been more severe had not local needs been partly supplied by the state banks, the newly organized trust companies and savings banks.

When a few years later national bank currency became unprofitable and was gradually retired, the national banks which had large investments in government bonds were compelled to retain the bonds at a low rate of interest, or in selling them to re-introduce into the local field an equal amount of banking capital, the uses for which had already been supplanted by rapidly increasing bank deposits. Such national banking capital therefore appeared to be redundant. And it seemed the more redundant because by 1890 the national banks, with $20,000,000 of capital, on which they must earn dividends, was compared with the trust companies, with about $2,000,000 of capital, had less than fifty per cent. more of deposits than the latter.

That portion of bank deposits which consists of small amounts of

[1] In 1864 the loanable banking fund had consisted approximately of $21,200,000 banking capital, $1,500,000 surplus, $6,900,000 circulation and $6,600,000 deposits—total $36,200,000. In 1870 it consisted of $20,300,000 national banking capital, less $13,700,000 invested in government bonds, or $6,600,000 net capital, $3,300 000 surplus, $12,400,00 circulation, and $6,100,000 deposits—total $28,400,000. The difference in favor of the state bank system with an equal amount of capital was about $8,000,000.

THE HAMILTON BUILDING

Formerly Occupying the Site of the Industrial Trust Company Building, Providence. The Hamilton Building was Built in 1816 and Demolished in 1882.

From a Photograph in the Possession of the Rhode Island Historical Society.

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idle capital or of savings played no important part in Rhode Island banking until after 1850. As late as 1860 such deposits were largely confined to savings banks. At the close of the war they began for the first time to constitute an important portion of the assets of banks of discount and demand deposits.

The trust companies entered the local field at this point in the development of banking. They combine the functions of saving banks with the functions of banks of discounts and demand deposits. They have had in Rhode Island a development paralleled by that in no other state. They were free from the taxes on deposits and capital which were imposed upon the national banks. Their beginning was opportune, because it coincided with the period of reconstruction. Being at first very shrewdly managed, they escaped the serious losses incident to the panic of 1873. The first charter granted was that of the Rhode Island Hospital Trust Company in May, 1867. Incidentally we may note that this was the first state charter upon which was imposed, in lieu of a tax, the obligation to devote a certain portion of its profits to charitable purposes. The company was required to pay one-third of its net income over six per cent. to the Rhode Island Hospital as long as the legislature should grant no similar charter to parties other than its incorporators. It was a bank without the power of issuing circulation. It was authorized to "receive and hold money upon optional terms", "at interest agreed upon", and to invest such money in such ways as the directors deemed "prudent."

It was required to deposit with the state treasurer bonds of the New England states, New York or the United States to the value of twenty per cent. of its capital. This deposit exempted the company from all liability for its acts as executor, administrator, guardian, assignee or receiver, in all of which capacities it was authorized to act. It also exempted individuals acting in such capacities from liability on all deposits left with the trust company. In 1870 the company had $2,000,000 of deposits; in ten years its deposits exceeded $6,000,000. Soon afterward competition began; in 1900 there were ten active trust companies in the state, although the business was practically confined to six of them.[1] Their capitals amounted to $4,107,600; their surplus to $3,400,000; their deposits to $40,200,000. In July, 1901, their deposits amounted to $45,300,000.

The state banks had paid interest on certain portions of their deposits. The trust companies began at once to pay interest on both time and demand deposits. At the same time the national banks were paying a tax of one and one-half per cent. on deposits and continued to do so until 1883. The small banking capital of the trust companies, their liberal charter powers and the facilities which they could offer to

[1]The Newport Trust Company was organized in 1902.

depositors, drew to them a rapidly growing deposit account. The national banks refused to pay interest on demand deposits until they were compelled to do so by their rapidly increasing assets. Indeed, in order to furnish accommodations to their customers, they were frequently obliged to borrow from the trust companies, at good rates of interest, the very funds which the latter had attracted from them. Within the ten years from 1890 to 1900 the deposits in the national banks of the state increased from $16,700,000 to $17,500,000, about five per cent. Within the same period the deposits in trust companies increased from $12,000,000 to over $40,000,000, about 330 per cent. Savings banks deposits have increased about 250 per cent. since 1870.

This enormous total of small sums of idle capital in the form of deposits has within the past thirty years taken the place in the field of banking, which for seventy years previous to 1865 was occupied almost wholly by banking capital in the form of capital stock. Within the last thirty years circulation banking has ceased also to be important. The rise of deposit banking, therefore, is clearly the chief cause of the redundancy of national banking capital in Rhode Island, but it is not the only cause. The economic revolution which has been accomplished in the same period has to a peculiar degree emphasized and accelerated that redundancy.

The industrial supremacy which Rhode Island retained until 1870 was dissipated by the panic of 1873, and in the reorganization of industry which has since occurred, the proportion of circulating capital to fixed capital has decreased, and thus the demand for credit in the form of discounts has not increased at the same rate as general business. The period of contraction which began soon after the war expressed itself in constantly falling prices. It found Rhode Island as well as other states doing business on a line of credits inflated to correspond with war prices and an expectation of a continuance of war profits. Declining profits were met by increased borrowings to carry the load of accumulating products. Rates of money advanced rapidly and the crisis was reached in 1873. The failure of Jay Cooke & Co. in September was followed by a period of suspense and uncertainty, during which the character of manufacturing paper, based upon the inflated values above noted and carried from year to year, was keenly scrutinized. Rates of interest in the local market rapidly advanced from ten to twenty per cent. In the latter part of October Rhode Island was shocked to its industrial center by the suspension of the A. & W. Sprague Manufacturing Company of Providence, and Hoyt, Sprague & Company of New York.[1] The assets of the Spragues

[1]Various other concerns dependent upon Sprague capital or interests were involved in this suspension.

were appraised at $19,495,000; the liabilities at $11,475,000.[1] The business interests of the Spragues were widely extended. The estate as a whole was put into insolvency, and though some portions of it were solvent the severe contraction of business during the next few years entailed enormous losses upon the creditors.

The Cranston Savings Bank, to which the Spragues owed $1,130,000, closed its doors. The Franklin Savings Bank of Providence, to which they owed $750,000, went down in the ruins. The Sprague obligations to the Globe National, the Second National and the First National Banks were nearly three-quarters of a million dollars each. The Globe reduced its capital from $600,000 to $300,000. The Second reduced its capital from $500,000 to $300,000. The First reduced its capital from $600,000 to $500,000, and all of them assessed their stockholders in order to partly recoup their losses. For more than twelve years the property was the subject of litigation in the courts and during that time idle mills were sold at prices about one-sixth of their apprised value as going concerns.

The enormous sums involved in this failure astounded the whole country. It had no parallel in the industrial history of the United States. It gave Rhode Island a blow from which her industry has never recovered. The subsequent failures which can be traced to this as their primary cause extended over a period of more than twenty years. The unfortunate craze for speculation in land soon after the war began to reap its reward during the years preceding "Resumption". It resulted in further losses to the banks. The City Savings causes resulted in further losses to the banks. The City Savings Bank suspended payment for a time. The Rhode Island Savings Bank and the Union Savings Bank went into liquidation. The Pawtucket Institute for Savings, the Franklin Savings Bank of Pawtucket and the Providence County Savings Bank were practically reorganized. The Grocers and Producers Bank failed. The State Bank reduced its capital. The Northern and the Union Banks reduced their capital and later went into liquidation.[2] Scarcely a bank in the state escaped serious loss. The whole period was one of noteworthy industrial depression. The demand for capital became less active, and although the banks had suffered so severely they were compelled to seek a field for the investment of even their reduced resources outside the state. Litigation and liquidation entailed losses upon them in addition to those which they at first suffered, and from which they have not yet recovered. Between 1889 and 1898 eight failures have occurred in Rhode Island involving liabilities of $10,000,000. A reconstruction and reorganization of the state's banking system has been the slow but sure attendant of these events.

[1] Journal, Nov. 3rd, 1873.
[2] R. I. Bank Reports.

Thus while deposits were supplanting banking capital as a means of discount, while the conditions incident to retiring national bank circulation were slightly increasing the amount of national banking capital available for the local field, and while its earnings were being reduced by the competition of the trust companies, the industrial convulsions of 1873, which had destroyed some of it, was accompanied and followed by a marked contraction of the field that remained for its use. From a series of cumulative events a large amount of local national banking capital had ceased to have any reason for existence. During a series of years, beginning about 1880, the average return to the stockholders in the form of dividend was less than three per cent. About 1890, Marsden J. Perry, of Providence, recognizing this condition of affairs, began to advocate a system of consolidation and liquidation of national banks. Others have aided in the movement. From 1890 to 1901 inclusive twenty national banks have retired from business. The total capital stock has been reduced from about $20,000,000 to $13,000,000. Local banking has been revolutionized.[1]

At the beginning of this chapter we saw a community, imbued with inflationist ideas, trying to solve the problem of furnishing a currency both elastic and convertible, adequate to the purposes of discount and circulation and based partly upon nothing and partly upon contingent assets. We saw that John Brown and his associates partly solved the problem by the harsh bank process power and the expedient of short time notes, which converted a large portion of the contingent assets of the banks into quick assets. At the same time we saw that the nature of the industrial organization and the business relations of the banks themselves combined to quickly dissipate the thought of a fiat medium from the minds of business men. Currency problems were then confined to the state.

At the close of the century we find the problem transferred to the national field, and although some progress has been made we are still far from knowing how to furnish a currency elastic, safe and adapted to the diverse needs of the country.

We have seen the chief reason for the existence of the national banking system gradually disappear, because bonds which the banks first purchased have been taken by private capitalists, and because the rising prices of them and falling rates of interest have combined to

[1]As to the inter-bank facilities, it may be noted that the clearing system which had centered around the Merchants National Bank and the National Bank of North America was simplified by the establishment of a clearing house on July 1st, 1888. The Union Trust Company began a system of branch banks in 1891. At present the Industrial Trust Co. has five branches and the Manufacturers Trust Co. has one.

render national bank circulation unprofitable. The recent modification of the laws affecting it have as yet scarcely passed beyond the stage of experiment.

We saw discount banking based by force of circumstances almost wholly upon banking capital. After having done its part, both to the state and national bank system we find that capital disappearing because of changed economic conditions. In its place we see an intricate system of credits granted by means of deposits.

We saw at the outset that circulation was a dangerous means of discounting, because it was a demand liability based on a non-demand asset. We see to-day precisely the same danger existing in the large use of deposits as a means of discounting because they are a demand liability dependent on non-demand assets. The danger at first was avoided by an artificial method of converting slow into quick assets. Whether or not the present danger will be avoided depends upon the proportion of the banks' investments which can properly be classed as quick assets. But it must not be forgotten that the large accumulation of wealth during the century has become the basis of countless securities of a standard value in an almost worldwide market. These are instantly convertible. Hence while we may compare the demand currency of 1800 and the demand deposits of 1900 as possessing similar elements of danger, no comparison is possible between the means then and now available for providing against such dangers.

STATE AND OTHER BANK STATISTICS.

The figures are thousand of dollars only, 000 being omitted.

Year	No. of Banks	Capital	Surplus	Circulation	Deposits on Interest	Deposits not on Interest	Due to Banks	Other Liabilities	Loans and Discounts	Specie	Bills	Due from Banks	Stocks and Real Estate	Other Stocks	Real Estate and other Property	Dividends	Loaned on its own Stock	Overdue paper
Oct. 1809	13	$1,500[1]	....	$ 435	....	$ 488	....	....	$2,037	$410	$ 79	$ 88	....	....	....	....	....	....
1810	13	.....	....	542	....	456	....	....	2,266	394	143	41	....	....	....	....	....	....
1811	13	.....	....	460	....	464	....	....	2,330	343	[3]102	20	....	....	....	....	....	....
1812	13	.....	....	541	....	645	....	....	2,363	476	[3]126	95	....	....	....	....	....	....
1813	13	.....	....	770	....	1,092	....	....	2,487	534	245	[4]329	....	....	....	....	....	....
1814	14	.....	....	549	....	636	....	....	2,386	442	70	166	....	....	....	....	....	....
1815	16	.....	....	576	....	321	....	....	2,556	358	83	49	$ 46	....	....	....	....	....
1816	16	.....	....	547	....	283	....	....	2,547	251	115	20	200	....	....	....	....	....
1817	17	.....	....	634	....	586	....	....	2,635	334	259	98	264	....	....	....	....	....
1818	27	.....	....	597	....	574	....	....	2,905	393	171	55	334	....	....	....	....	....
May 1819	30	2,968	$ 12	690	....	424	$ 1	....	3,064	371	150	45	473	....	....	....	....	....
1820	33	3,157	15	601	....	499	7	....	3,387	326	152	55	430	....	....	....	....	....
1821	33	3,241	16	675	....	466	3	....	3,647	355	217	93	400	....	....	....	....	....
1822	33	3,662	21	645	....	449	5	....	4,076	346	159	76	333	....	....	....	....	....
1823	37	3,962	65	593	....	412	4	....	4,331	288	136	73	336	....	....	....	....	....
1824	42	4,444	79	726	....	608	10	....	5,060	341	200	115	299	....	....	....	....	....
1825	43	5,292	116	1,021	....	770	65	....	7,253	452	196	165	319	....	....	....	....	....
1826	43	5,571	115	713	....	665	149	....	6,218	376	145	117	224	....	....	....	1,500	....
1827	44	5,621	119	824	....	950	163	....	5,913	449	165	186	379	....	....	....	....	....
1828	45	6,051	151	913	....	1,015	189	....	7,474	344	168	142	347	....	....	....	....	....
Oct. 1829	47	6,098	173	675	....	809	109	....	6,910	342	122	261	350	....	....	....	....	....
1830	46	6,065	146	929	....	946	118	....	7,022	366	188	329	337	....	....	....	....	....
1831	50	6,732	180	1,342	....	1,291	112	....	8,247	426	258	323	534	....	....	....	....	....
1832	49	7,113	193	1,208	....	1,159	157	....	8,551	355	230	250	329	....	....	....	....	....
1833	51	7,439	232	1,264	....	1,453	129	....	9,192	404	274	294	491	....	....	....	....	....
1834	58	8,041	270	1,251	....	2,273	154	....	9,608	467	261	263	303	....	....	....	....	....
1835	61	8,751	319	1,644	..	1,697	189	....	11,085	566	380	290	339	....	....	....	....	....
May 1837	61	9,849	432	1,440	$ 321	1,374	665	....	12,627	263	....	830	373	....	....	....	....	....

													Own stock owned					
Oct.	1837	62	9,837	471	1,864	796	1,305	604	$12	13,401	243	430	452	$ 82	$ 62	$222	6.6	$815	$ 61
May	1838	62	9,852	454	2,195	1,003	449	606	27	12,794	464	429	483	120	52	235	7.	780	----
	1839	62	9,965	445	2,040	852	1,946	494	31	13,110	416	532	468	103	54	237	7.	719	----
	1840	62	9,968	461	1,335	468	817	386	20	11,712	344	322	553	152	97	276	6.5	621	----
	1841	62	10,111	446	1,681	264	1,334	500	26	12,064	448	458	831	203	97	260	6.75	597	----
	1842	62	10,160	437	1,585	352	812	412	25	11,911	325	341	709	112	114	257	7.	580	----
	1843	62	10,176	413	1,619	202	947	522	27	11,668	336	399	954	135	128	270	6.25	584	671
	1844	61	10,227	384	2,887	125	1,552	804	25	12,621	383	526	1,255	93	174	250	5.25	495	516
	1845	61	10,176	439	2,560	170	1,270	654	25	13,399	296	439	669	62	169	261	5.75	426	435
	1846	61	10,549	510	2,907	270	1,079	757	26	14,123	280	461	694	48	202	289	6.75	352	198
Oct.	1847	62	11,023	619	2,842	196	1,268	854	31	14,987	325	405	572	61	226	257	6.50	362	450
	1848	62	11,150	661	2,380	103	1,118	479	29	14,294	306	423	396	63	195	243	6.75	352	269
	1849	61	11,298	685	2,525	126	1,283	588	28	13,555	291	443	485	85	155	250	6.8	334	488
	1850	63	11,716	740	2,554	139	1,453	651	36	14,300	298	538	441	71	151	297	7.1	338	----
	1851	69	12,906	783	3,077	206	1,661	934	43	16,300	278	626	629	37	120	285	7.	393	118
	1852	70	14,037	839	3,322	376	1,748	892	51	18,736	415	726	948	42	116	282	7.25	428	402
	1853	77	15,946	991	4,895	363	2,184	1,063	54	21,248	360	844	1,005	28	121	293	7.	423	239
	1854	87	17,542	1,074	5,035	329	2,682	1,047	90	23,354	312	881	933	31	112	298	7.1	531	390
	1855	92	18,715	1,151	5,404	351	2,831	1,192	84	26,385	386	1,157	1,242	32	131	393	7.1	469	541
	1856	98	20,364	1,313	5,522	660	3,142	1,475	54	28,679	548	1,282	1,255	89	128	549	7.4	561	435
May	1857	98	20,857	1,338	5,344	439	3,046	1,484	75	29,094	330	1,220	1,135	83	128	595	7.1	666	585
Dec.	1857	93	20,561	1,309	3,193	381	2,452	1,661	58	25,823	571	861	1,411	227	145	578		892	1,387
	1858	93	20,310	1,180	3,375	477	2,733	1,140	75	25,104	657	939	1,558	194	207	631	6.8	608	1,300
Nov.	1859	91	20,765	1,161	3,656	732	2,894	1,123	74	26,760	468	1,116	1,023	93	214	732	6.7	672	1,128
	1860	90	21,152	1,177	3,773	819	2,898	1,396	88	25,546	472	966	846	81	99	754	6.5	625	800
	1861	90	21,234	1,156	3,306	737	3,005	965	89	26,561	607	887	1,041	97	400	991	7.4	694	1,473
	1862	88	20,889	1,128	6,485	903	4,737	2,012	94	29,857	505	1,785	2,160	112	871	959	7.4	622	1,025
	1863	87	20,977	1,253	7,047	1,188	4,673	1,569	104	30,345	479	1,503	1,724	145	1,572	922	6.8	486	768
	1864	86	21,209	1,489	6,921	1,296	5,334	1,680	141	30,217	455	1,921	1,921	121	2,286	913	7.3	521	510
	1865	14	3,558	200	1,628	127	1,087	46	19	5,699	46	276	300	52	223	71	7.	94	95
	1870	15	3,083	189	30	....	1,234	87	31	3,972	8	240	172	51	179	43	7.6	99	154
	1900	[2]6	917	149	1	289	529	70	6	1,097	10	76	219	110	93	354	5.5	44	107

[1]Estimated. [2]Including 2 in liquidation with capital, $421,675. [3]Treasury notes. [4]Specie deposited by residents in the seaport towns in inland banks for safe-keeping.

TRUST COMPANIES.

Year	No. of Banks	Capital	Surplus	Deposits	Due Banks	Other Liabilities	Loans	Cash	Stocks owned
1870	1	$ 500	$ 5	$1,984	----	---	$2,283	$ 80	----
1880	1	800	33	6,410	----	---	6,243	763	$ 237
1890	6	2,164	563	12.073	----	---	13,618	848	339
1900	[1]11	4,108	3,379	40,456	2,622	992	47,155	2,713	1,588

[1]Including 1 in liquidation with capital of $282,000.

NATIONAL BANKS.

Year	No. of Banks	Capital	Surplus	Circulation	Deposits	Loans
1870	62	$20,365	$3,267	$12,378	$6,076	$22,867
1890	59	20,214	6,282	3,098	16,788	36,664
1900	42	14,676	5,006	5,185	17,547	28,744
1901	30	13,251	-----	------	-----	------

SAVINGS BANKS.

Year	No. of Banks	Deposits
1850	7	$1,495
1860	21	9,164
1870	26	30,708
1880	39	44,756
1890	38	63,719
1900	34	74,847

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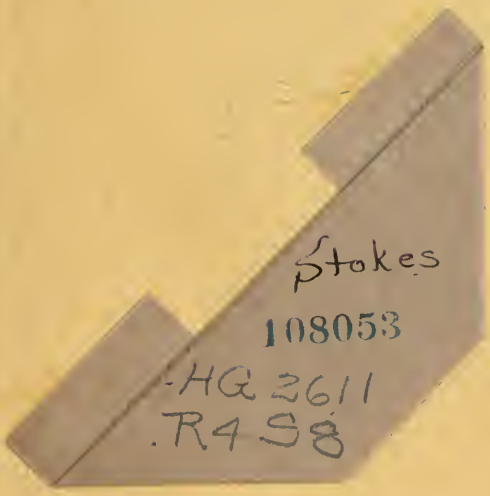
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